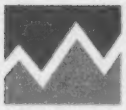

British Columbia
Securities Commission

Annual Report 2013-14

InvestRIGHT
A program of the BC Securities Commission

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People

The success of the British Columbia Securities Commission depends on the skill of our professional staff to identify and resolve regulatory problems in the complex and fast-paced capital markets. The required expertise is constantly changing to meet the needs of a changing market. We work hard to attract and retain the specialized securities market expertise we need to fulfill our mandate.

BCSC staff are actively engaged in their communities. A number of our employees give their time to not-for-profit organizations outside of work, and many of them volunteer in our Staff Ambassador program, delivering investor and industry education seminars throughout the province.

Every year, BCSC staff go beyond the call of duty to respond to the challenges posed by complex and dynamic securities markets. This report details their achievements and dedication to making the BCSC a leading securities regulator in Canada.

Message from the Chair

Brenda M. Leong

British Columbia's Capital Markets

Over the past few years, the BCSC has expended considerable energy and resources gathering information about BC's capital markets. By engaging with market participants directly, through consultation, and indirectly, through research, surveys, and other sources, we have strengthened our understanding of both the public and private markets and our capacity to regulate them more effectively. It is important that we understand the markets that we regulate—who is raising capital, in what sectors, through what channels, the types of products being sold, and the risks they may present to investors. Understanding the markets we regulate is critical to being an effective regulator and lends credibility to the regulatory policy decisions we make.

The Public Market

BC public companies are represented on both the TSX-Venture Exchange (TSX-V) and the Toronto Stock Exchange (TSX). There are just over 1,800 public companies based in BC. Over 1,200 are listed on the TSX-V, comprising over 50% of listed companies and 29% of market capitalization. These numbers are growing. In the last year, the number of BC companies listed on the TSX-V grew by 10%.

Most of these companies are involved in the junior mining industry, followed by oil & gas, and technology. The vast majority are small-to-medium-sized businesses. About half conduct relatively small financings and rely largely on smaller independent dealers to support their financing needs.

Around 190 BC-based companies are listed on the senior board of the TSX, the majority of which are mining companies. These companies have a combined market capitalization of $152 billion.

In 2013, BC companies raised almost $6 billion in the public markets, down from $8.1 billion in 2012, but still above the $3.8 billion raised in 2011. Financing conditions remain difficult, given continuing global market challenges and depressed commodity prices.

The Private Placement (Exempt) Market

With a greater focus on the private market, we know that in recent years the amount of money raised in the private placement market has exceeded that in the public market. Given this continuing trend, we have refocused resources and invested in technology to effectively monitor the risks inherent in this market.

In 2013, BC companies raised $9.3 billion in the private placement market, down from the $12.1 billion raised in 2012.

Reducing the Costs of Regulation for Venture Companies

Given the challenging market conditions, it is not surprising that companies, dealers, and others are concerned about the costs of regulation, liquidity gaps, and the health of dealer firms that support the venture market. In response, we introduced new rules that would provide for a more cost effective means for public companies to raise capital from their existing shareholders. After the end of the fiscal year, we published for comment changes to disclosure rules for venture companies to reduce costs and provide more meaningful disclosure for investors. We expect to implement those rule changes in the coming year and are working on other specific projects intended to support market participants' financing needs, including the possibility of adopting a start-up crowdfunding rule.

Dealers who support the venture market also told us that they are experiencing disappearing quotes, inexplicable downward price pressure on positive market news, and other impacts from perceived high-frequency traders and short sellers on the TSX-V. Their experiences led us to begin work that will help us understand the roles and impacts of high-frequency traders and short sellers in the venture market.

Our goal is to keep BC's capital markets competitive and fair so that investors have confidence in our capital markets.

CSA and the Cooperative Capital Markets Regulator

In September 2013, the Ministers of Finance for BC, Ontario, and Canada signed an agreement in principle (AIP) to create a Cooperative Capital Markets Regulator (CCMR). Since then, BC, Ontario, and the federal government have worked collaboratively to develop draft uniform provincial capital markets legislation and complementary federal legislation. The AIP set out milestones for the development and implementation of the CCMR.

In January of this year, in order to ensure that this critical legislative work is completed in an orderly fashion and achieves its objectives, the governments of BC, Ontario, and Canada agreed to extend the milestone date for the draft provincial capital markets legislation, draft complementary federal legislation, and CCMR memorandum of agreement. Our government, supported by BCSC staff, is working diligently to complete this foundational work. Our government expects the CCMR to be operational by July 1, 2015, as set out in the AIP.

The BCSC has been supporting government to achieve this important initiative, and we remain committed to delivering on our mandate to protect investors and foster fair and efficient markets. We worked diligently to meet our Service Plan commitments and met or exceeded all of our performance measurement targets, except for four (measurements 1.2, 2.1, 2.2, and 3.1). This year we focused on three risks: illegal distributions and fraud; non-compliance in the private placement market; and market misconduct associated with offshore secrecy jurisdictions.

While the work continues on developing the CCMR, the BCSC continues the important work of improving securities regulation in Canada through its active participation in the Canadian Securities Administrators (CSA). Of note was the approximately $6.5 million in savings passed on to market participants as a result of the CSA's new services agreement with CGI Information Systems and Management Consultants Inc. to operate the National Filing Systems—SEDAR, SEDI, and NRD.

Data-Driven Decision-Making

The BCSC has aspired to be a risk-based and evidence-driven organization. To truly achieve this goal, we are transforming the way we do business by building and implementing the tools and training necessary to transform data into knowledge and insight. Last year we took some important steps to achieve that goal.

For example, we implemented four risk models—three of them predictive, and the fourth identifying factors that trigger risk:

1. the registered firms risk model
2. the individual registration applicants risk model
3. the public company continuous disclosure risk model
4. the private placement filings risk model

These tools will help us identify higher risk market participants for review and assist staff to make consistent and defensible compliance decisions. Applying both risk models and predictive analytic techniques to assess regulatory risks is new. The BCSC is the only financial regulator in Canada taking this innovative approach. We are also taking a leadership role in applying a risk-based approach to monitoring the private placement market.

The Continued Evolution of Capital Market Structures

Following Maple Group's acquisition of the TMX Group, Alpha Exchange, and CDS Clearing and Depository Services Inc. (CDS) in July 2012, we continue to see an evolution of our capital markets. Currently, we are reviewing proposals for new exchanges from Aequitas Innovations Inc. (Aequitas) and TSX Private Markets.

Both of these proposals represent innovative responses to real or perceived gaps in the market—a need to limit predatory high-frequency trading strategies in the case of Aequitas, and a need for increased liquidity in the private market, in the case of TSX Private Markets. It is these innovations that lead us to think about the regulatory framework necessary to support the evolution of our capital markets. We will continue to monitor these initiatives and others like them in order to gauge the impacts on our markets.

Investor Protection

Our *Be Fraud Aware* campaign, now entering its fourth year, is the first comprehensive investor education campaign of its kind in North America, using traditional and social media to reach BC communities in multiple languages. Once again this year, we have received international acclaim for our *Be Fraud Aware* public awareness campaign with a Gold Quill Award, from the International Association of Business Communicators, for the English-language version aimed at the general population. The campaign has won six awards in its first three years.

Engagement with the BC public, measured by calls to BCSC Inquiries that were triggered by our investor education activity, has increased by 158% from when we launched the campaign. This has enabled us to better connect that engagement to potentially high-value enforcement tips that will help protect the investing public.

Enforcement Activity

In what has been a productive year, the volume of enforcement cases remained high in both the administrative and criminal sides. Last year we took steps to strengthen investor protection by taking on complex cases that alleged public interest violations, in addition to *Securities Act* misconduct. The BCSC has broad public interest jurisdiction to protect investors and the markets.

We also continued to actively investigate cases for criminal prosecution through our criminal investigation team, and use all the tools at our disposal to combat growing online investment fraud.

Industry Education

Last year, our Corporate Finance team launched a new program called *Capital Raising for Small Business*. The goal was to reach entrepreneurs in the early stages of starting a small business, and who could unintentionally, without some understanding of securities laws, run afoul of the capital-raising rules.

As part of the program rollout, we developed a guide, made a number of presentations to industry groups, and produced a webinar and a video. We reached over 100 small businesses live, and thousands online.

This year, we will be even more active in the area of industry education. We will build on the *Capital Raising for Small Business* program and create an industry education initiative designed to help companies and market participants be more efficient and compliant.

Financial Picture at Year-End

Almost all of our local funding is from fees paid by securities market participants. Our fee model generates revenues that generally grow proportionally with long-term market growth, providing us with sufficient resources to regulate increased market activity. Fee revenues fluctuate with market movements, but accumulated local surpluses, equal to about eight months of local expenses, provide a funding cushion during protracted periods of market weakness.

Our $26.6 million surplus for the year was significantly above our $0.2 million budget. One-time revenue from recognizing a national filing systems partnership, and higher partnership operating results accounted for $25.4 million of the positive budget variance. Local operations generated the remaining $1.0 million positive budget variance. Local revenues were $0.8 million above budget due to higher capital-raising activity, while expenses were $0.2 million under budget.

Our People

Our staff worked diligently this past year to support government's important initiative to develop a CCMR System. They also worked hard to meet the commitments under our business plan. In looking at the past year, we succeeded on both fronts due to the hard work and dedication of staff. We value an innovative, problem-solving, and service-oriented culture, and I am proud to say that our staff clearly exemplify those values in protecting investors and our capital markets. I want to recognize and thank all of them. In the coming year we will continue to support government to strengthen the securities regulatory system in Canada.

Finally, I want to express my sincere appreciation to the BCSC commissioners for their unwavering support of the BCSC and the important work we do. They make a significant commitment in serving the investing public and our capital markets. I am grateful for their work on administrative hearings and guiding our regulatory policy decisions.

Statement of Accountability

The 2013/14 Annual Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. I am accountable for the contents of the report, including what has been included in the report and how it has been reported.

The information presented reflects the actual performance of the BCSC for the 12 months ending March 31, 2014 in relation to the Service Plan published in February 2013.

I am responsible for ensuring internal controls are in place to ensure information is measured and reported accurately and in a timely fashion. The measures presented are consistent with the BCSC's mandate, goals, and strategies, and focus on aspects critical to the organization's performance.

The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate directions, goals, strategies, measures, or targets made since the 2013/14 – 2015/16 Service Plan was released, and any significant limitations in the reliability of data, are identified in this Annual Report. In preparing this report, we have considered all significant assumptions, policy decisions, events, and identified risks, as of June 5, 2014.

BRENDA M. LEONG

Chair and Chief Executive Officer

Organizational overview

BCSC vision

To play a leading role in securities regulation that inspires investor confidence and supports fair, efficient, and innovative Canadian capital markets.

Mission

The BCSC is the independent provincial government agency responsible for regulating capital markets in British Columbia through the administration of the *Securities Act*. Our mission is to protect and promote the public interest by fostering

- a securities market that is fair and warrants public confidence
- a dynamic and competitive securities industry that provides investment opportunities and access to capital

Values

Our values of integrity, accountability, and service guide our commitment to appropriate, effective, and flexible regulation. This commitment allows us to keep pace with rapidly evolving capital market changes.

Overall Benefit

The Commission benefits the public by protecting investors and the integrity of BC's capital markets. We

- review the disclosure that businesses raising capital must provide to investors
- review applications for registration from those that trade securities, provide advice, or manage portfolios or investment funds, to ensure they are qualified, ethical, and solvent
- take action against those who contravene securities laws
- educate investors to protect themselves and industry participants to understand how to comply with securities law requirements

Enabling Legislation

The BCSC's enabling legislation is the *Securities Act*, RSBC 1996, c. 418.

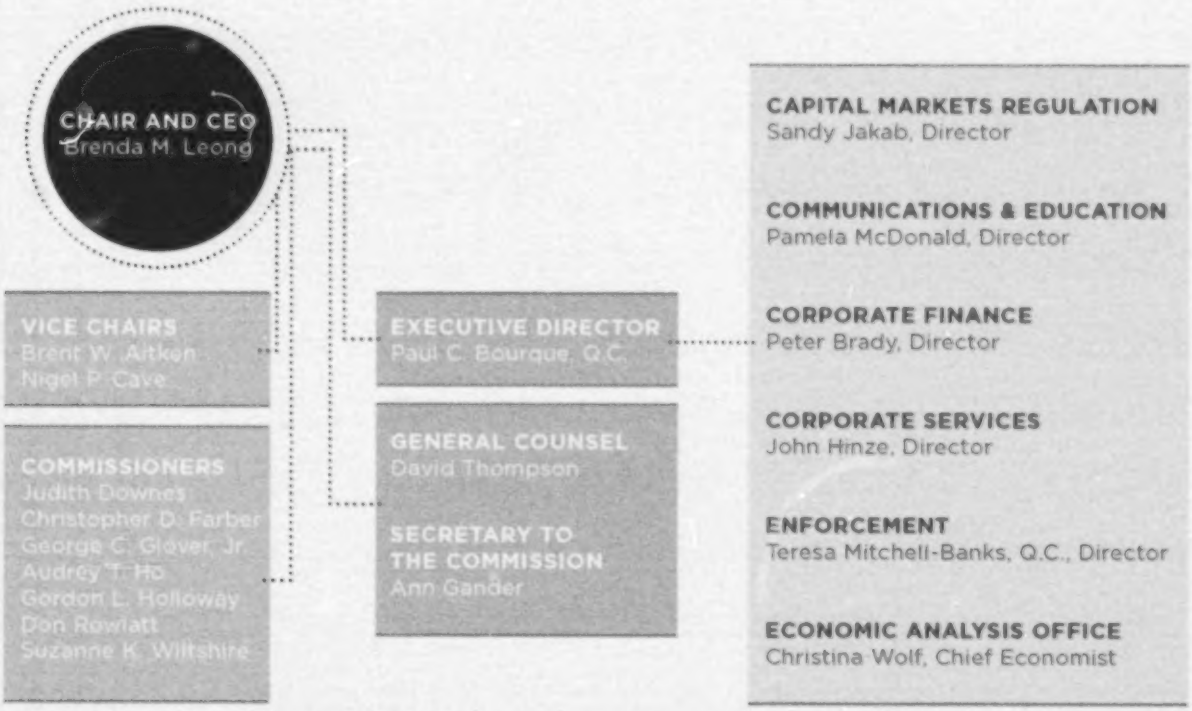
We are accountable to the provincial legislature and the public through the Minister of Finance, to whom we submit this Annual Report and audited financial statements. We submit our three-year Service Plan to the provincial Ministry of Finance and Treasury Board as required by the *Securities Act* and the *Budget Transparency and Accountability Act*.

Government's Letter of Expectations

The provincial government sets out the following specific expectations of the BCSC in the government's Letter of Expectations. Our progress in meeting those expectations is noted below.

Expectations	Progress
Work with other provinces and territories to strengthen investor protection and the Canadian regulatory framework.	The BCSC worked cooperatively with the CSA on various regulatory initiatives, including those related to Canada's G20 commitments. The BCSC is actively participating in the national initiative to develop a harmonized framework to regulate Over-the-counter (OTC) derivatives as outlined on page 5 of the CSA 2013 – 2016 business plan.
Make best efforts to streamline, simplify, and harmonize securities laws with other provinces and territories.	The BCSC chairs a national committee to streamline and harmonize securities reporting requirements for venture companies, rights offerings, and various other rules.
Assist the provincial government in continuing to cooperate with the federal government's development of a common securities regulatory framework for consideration by governments (Common Regulator Initiative).	The BCSC provided advice and expertise to the provincial government relating to the CCMR initiative, including work on drafting the provincial legislation under this initiative.
Comply with government's requirements to be carbon neutral under *Greenhouse Gas Reduction Targets Act*, including • accurately defining, measuring, reporting on and verifying the greenhouse gas emissions from the BCSC's operations • implementing aggressive measures to reduce those emissions and reporting on these reduction measures and reduction plans • offsetting any remaining emissions through investments in the Pacific Carbon Trust, which will invest in greenhouse gas reduction projects outside of the BCSC's scope of operations	BCSC fully complied with the government's requirements to be carbon neutral in fiscal 2014.

Current Organizational Structure



Corporate Governance

A board of up to 11 commissioners appointed under the *Securities Act* governs the BCSC. The commissioners have four categories of responsibilities. They

- review and approve the development and implementation of securities legislation, regulations, rules, policies, and guidance
- act as adjudicators on enforcement matters brought under the *Securities Act* and applications for review of decisions made by self-regulatory organizations (SROs) and exchanges
- act as the BCSC's board of directors, overseeing the BCSC's management, operations, and financial affairs
- oversee, with staff, the SROs, exchanges, and other marketplaces

Board committees

Independent commissioners are also members of one or more of three board committees described in the table below:

Committee	Members	Role
Audit	Suzanne K. Wiltshire, Chair George C. Glover, Jr. Gordon L. Holloway Don Rowlatt	The audit committee assists the board in • overseeing the integrity of the BCSC's financial management and reporting systems • overseeing the effectiveness of the BCSC's internal controls • ensuring the independence of the BCSC's internal and external auditors • monitoring risk management policies and systems
Human Resources	Don Rowlatt, Chair Judith Downes Audrey T. Ho	The human resources committee assists the board in • ensuring the BCSC has an effective organizational structure and competitive human resources and compensation policies and practices • ensuring appropriate processes are in place for the selection (except for the chair and vice chairs), evaluation, compensation, and succession of senior management • evaluating and determining compensation for the chair
Governance	George C. Glover, Jr., Chair Audrey T. Ho Suzanne K. Wiltshire	The governance committee assists the board in • ensuring the BCSC has policies and practices for good governance and ethical conduct • ensuring the board and its committees function independently • evaluating board performance • ensuring appropriate processes are in place for the selection of the chair and vice chairs • establishing and implementing, together with the chair, the process for identifying, recruiting, and appointing independent commissioners

Governance Principles

Recruitment — The provincial government appoints the commissioners for a term of office specified under the *Administrative Tribunals Act*. Every commissioner has skills and experience in business, capital markets, law, or regulation; a reputation for honesty, integrity, and dependability; and an appropriate level of knowledge of securities law and industry practice to fulfill the role as a member of an expert tribunal.

Orientation — The board has a comprehensive orientation program for new commissioners. The orientation program familiarizes new commissioners with the mandate and operations of the BCSC, the role of the board and its committees, and the relationship and division of responsibilities between the board and government.

Continuous governance improvements — The governance committee and the human resources committee develop, recommend to the board, and oversee processes for the evaluation of the board, its committees, the commissioners, the executive team, and senior management.

Independence — An independent commissioner must have no direct or indirect association with the commission that, in the view of the board, could be reasonably expected to interfere with the exercise of the commissioner's independent judgment. Every commissioner must develop and maintain an independent perspective, and must discharge quasi-judicial responsibilities fairly, expeditiously, and in the public interest.

Governance Best Practices Disclosure

The BCSC's governance practices meet the government's Best Practice Guidelines—*BC Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations* (2005, The Board Resourcing and Development Office) with one exception. The chair of the commission functions as both chair and chief executive officer, as required under the Act. The board does not have a lead director. The governance policy describes the mechanisms in place to balance the combination of the chair and chief executive roles, and explains how those mechanisms provide appropriate governance outcomes.

The governance policy requires that we disclose the following information about the BCSC in the annual report:

Commissioner compensation — see page 47 in the Financial Report for the compensation of each commissioner.

Commissioner attendance records — The attendance record for each commissioner is set out below.

Meetings attended by Commissioners[1]

15	14	13	3	1
Number of meetings attended	Number of meetings attended	Number of meetings attended	Number of meetings attended	Number of meetings attended
Brenda M. Leong George C. Glover Jr. Suzanne K. Wiltshire	Brent W. Aitken Judith Downes Gordon L. Holloway Don Rowlatt	Audrey T. Ho	Christopher D. Farber[2]	Nigel P. Cave[3]

1. During fiscal 2014, the board held 12 regular monthly board meetings and 3 SRO meetings.

2. Appointed December 2013

3. Appointed January 2014

Compensation consultants — see page 47 in the Financial Report for information on the consultants retained this year.

Our governance policy is on the BCSC website. A biography of each commissioner is also available on the BCSC website.

Key Stakeholders

- *The public* — which relies on us to foster capital markets that contribute to the well-being of BC
- *Investors* — who seek to invest in fair and efficient securities markets
- *Companies* — that rely on the capital markets to fund growth
- *Securities firms* — which advise investors and companies, and facilitate trades
- *Marketplaces* — which facilitate trades
- *Other regulators* — with which we enforce compliance, and develop and implement policy initiatives through the CSA
- *The provincial government* — to which we are accountable

The Securities Regulation Landscape

We fulfill our statutory mandate to regulate BC capital markets in cooperation with other CSA jurisdictions. Regulating BC's capital markets in the context of a national system significantly affects how we conduct our work. It also influences how we consider and implement securities policy in BC.

We work within a "passport" system. Passport gives a market participant automatic access to the capital markets in all passport jurisdictions by obtaining a decision from only its principal regulator (PR) and meeting the requirements of one set of largely harmonized laws. All Canadian jurisdictions, except Ontario, participate in the passport system. While Ontario-based market participants benefit from the passport system, market participants based outside of Ontario must deal with both their PR and the Ontario Securities Commission (OSC).

We rely on SROs to regulate dealers and trading activity in Canadian securities and exchange contract markets:

- The Investment Industry Regulatory Organization of Canada (IIROC) regulates investment dealers and trading activity on Canadian equity marketplaces, including the TSX, the TSX-V, the Canadian Securities Exchange (CSE), and alternative trading systems.
- The Mutual Fund Dealers Association (MFDA) regulates mutual fund dealers.

The BCSC leads regulatory oversight of the MFDA on behalf of the CSA, subject to input from the other CSA jurisdictions. The OSC performs the same role for IIROC.

The BCSC shares responsibility with the Alberta Securities Commission (ASC) for oversight of the TSX-V. The BCSC relies on the OSC's oversight of the TSX, the Alpha Exchange, and the CSE.

The BCSC has recognized CDS and Canadian Derivatives Clearing Corporation. These agencies clear exchange-listed securities and derivatives.

The BCSC has also recognized the Canadian Public Accountability Board, which oversees auditors who audit public companies in Canada.

Corporate Finance and Capital Markets Statistics

Fiscal year	2010	2011	2012	2013	2014
Registrations[1]	31,553	32,979	32,407	32,581	34,878
New firm registrations	5	15	14	4	12
New individual registrations[2]	N/A	N/A	N/A	2,699	3,821
Dealer and Adviser firm examinations	18	34	31	34	43
Active public companies	7,212	7,213	7,621	7,638	7,554
Mutual fund prospectus filings	2,832	3,063	3,150	3,587	3,428
Prospectus filings (non-mutual fund)[3]	828	1,045	1,084	588	490
Initial public offerings receipted[4]	184	308	326	211	158[5]
BC PR Prospectus filings[6]	161	160	160	149	92[7]
Continuous disclosure reviews	341	298	325	354	447
Annual information forms (AIFs)	1,374	1,838	1,907	1,661	1,531[8]
Cease-trade orders (public companies)	437	334	296	243	223
Exemption applications[9]	N/A	N/A	112	85	76

1. *Registration figures are drawn from the National Registration Database (NRD). This is the total number of registrations granted in the province to firms and individuals; many firms and individuals hold multiple categories of registration. Thus, the total number of firms and individuals is less than the total number of registrations.*
2. *We revised this measurement methodology in fiscal 2013. Therefore, we have not included measurements for prior years, because they are not comparable. Starting in fiscal 2013, the table includes only new BC-resident individuals who were registered.*
3. *This figure represents all prospectus filings in BC, including those for which we are not the PR.*
4. *Initial public offerings (IPOs) are a subset of all prospectus filings.*
5. *The number for "Initial public offerings receipted" dropped in 2014 reflecting the difficulty junior companies faced in raising funds in the public market.*
6. *BC PR prospectus filings include all prospectuses (mutual fund and non-mutual fund) for which the BCSC is the PR. This figure is a subset of the figures shown for "Mutual fund prospectus filings" combined with "Prospectus filings (non-mutual fund)".*
7. *The number for "BC PR prospectus filings" dropped in 2014 reflecting the difficulty junior companies faced in raising funds in the public market.*
8. *The decrease in AIF filings was due to a decrease in venture companies that chose to file an AIF. These filings are voluntary for venture companies.*
9. *We revised this measurement methodology in fiscal 2012. Therefore, we have not included measurements for prior years, because they are not comparable. Starting in fiscal 2012, we no longer counted routine applications where BC was not the PR.*

Core Business Areas

We oversee BC's capital markets from our office at 1200–701 West Georgia Street, Vancouver, BC through work in four core business areas.

Compliance

We regulate securities firms, companies and insiders.

Capital Markets Regulation

Our Capital Markets Regulation division worked on the following three initiatives to address strategic priorities:

- *real-estate-based private placements (Strategy 1.2)*
- *compliance with registration requirements in the private placement market (Strategy 2.2)*
- *offshore secrecy jurisdictions (Strategy 2.3)*

Our Capital Markets Regulation division's core work includes registration, compliance reviews of registrants, and SRO, exchange, and clearing agency oversight.

We register securities firms and their advisers (except IIROC firms and their advisers, who register with IIROC) and refuse applications from unsuitable candidates. We also audit these securities firms on an on-going basis for compliance with the rules. Better investor protection results when securities firms and advisers understand and comply with the rules. We achieve this, in part, by ensuring these organizations have effective compliance systems and controls in place.

In fiscal 2014, BCSC staff held two registrant outreach workshops, reaching over 260 individuals in our directly regulated community, in person and by webcast. Among other things, these workshops focused on our compliance expectations for registrants in relation to new client disclosure requirements, cyber-security risks, and related risk-management strategies.

We rely on SROs to regulate their member firms. We oversee the conduct of SROs recognized in BC, which involves reviewing ongoing filings, proposed rule and fee changes, and conducting periodic oversight reviews of the TSX-V and CDS.

Corporate Finance

Our Corporate Finance division worked on the following three initiatives to address strategic priorities:

- *private company education (Strategy 1.1)*
- *real-estate-based private placements (Strategy 1.2)*
- *capital-raising exemptions (Strategy 1.3)*

Our Corporate Finance division reviews prospectus filings that companies make when they go public or when they are already public. The prospectus is one of the key disclosure documents used by companies to raise money from the public. We also monitor continuous disclosure documents filed by public companies to detect cases where they are not providing adequate disclosure. Investors are better able to make informed investment decisions when they have access to adequate periodic and timely disclosure.

As part of our prospectus and continuous disclosure review programs, we review mining technical disclosure of public companies. On request, we perform a pre-filing technical review for companies contemplating filing a short form prospectus, which has shorter review times.

In fiscal 2014, our mining team completed 230 mining technical disclosure reviews. Of the companies reviewed:

- *42% issued a clarifying news release*
- *47% were put on the defaulting issuers list*
- *37% filed new or amended technical reports*
- *less than 3% were cease traded*

We monitor filings on a daily basis by companies in the private placement market to gather information on these companies and identify those with higher risk. This allows us to focus our resources on the higher-risk companies.

We also monitor daily trading of OTC companies that file with the BCSC. We flag unusual trading activity and request further information.

Predictive Risk Models for Capital Markets Regulation and Corporate Finance

In both divisions, we have recently implemented four risk models – three of them predictive, and the fourth identifying factors that trigger risk, to inform our choices of where we focus our compliance oversight time. We have risk models for each of the first three areas listed below and a risk trigger model for the last area. All are discussed under Strategy 4.1:

- Registered firms
- Individual registration applicants
- Public company continuous disclosure
- Private placement filings

Enforcement

Our Enforcement division worked on offshore secrecy jurisdictions (Strategy 2.3), an initiative to address strategic priorities.

Effective enforcement requires decisive action against misconduct. Decisive action depends on timely detection, quick and thorough investigation, and vigorous prosecution of alleged misconduct. We resolve cases through settlements and by administrative proceedings and criminal prosecutions.

Our Enforcement division focuses on

- illegal distributions (including misrepresentations and fraud)
- market misconduct (including market manipulation and insider trading)
- compliance cases (including non-compliance by dealers, advisers, and companies) with a strong BC connection
- criminal prosecutions that relate to securities transactions

When cases with national implications emerge involving a BC-based market participant, we usually take the enforcement lead. SROs generally deal directly with cases involving SRO-member misconduct.

Pursuing illegal distribution and fraud through both administrative and criminal enforcement is a critical part of our work. Our objectives are to deter fraudulent activity and illegal distributions, and to mitigate investor losses by disrupting ongoing frauds and illegal distributions.

In fiscal 2014, Ralph Kelly was convicted of criminal fraud in BC Provincial Court for his involvement in a banking scheme and received a 25-month prison sentence (See further discussion of Kelly on page 71 in the Enforcement Report).

We protect investors from illegal distributions and fraud when we

- identify and freeze cash and other assets to preserve property for distribution to victims by the courts or the Civil Forfeiture Office
- issue temporary orders to immediately stop misconduct
- conduct investigations, leading to settlements or administrative hearings before the BCSC
- pursue criminal investigations and refer appropriate cases to Crown Counsel for prosecution
- issue *Investor Alerts* through traditional and social media about suspected frauds in progress
- educate investors about the warning signs of fraud so that fewer of them fall victim to fraudulent activity

One branch of our Enforcement division investigates criminal cases. Our goal is to bring more cases before the Courts in order to send a strong deterrence message. Every case proceeding at the BCSC is evaluated for its suitability as a criminal matter.

In Canada, we cooperate and coordinate with other Canadian regulators, exchanging information formally and informally on a near-daily basis to the full extent that the laws in each jurisdiction allow to strengthen investor protection, not just in BC but across Canada.

We regularly cooperate and coordinate with US federal and state regulators, as well as other foreign regulators in enforcement matters. We are active in the following international regulatory organizations:

- *International Organization of Securities Commissions (IOSCO)* — the international authority for global cooperation on regulatory standards, surveillance, enforcement, and information exchange among securities regulators
- *North American Securities Administrators Association* — an organization of Canadian provincial, US state, and Mexican federal securities regulators
- *Council of Securities Regulators of the Americas* — a forum for mutual cooperation and communication among securities regulators in North, South, and Central America, and the Caribbean

In addition, we have formal bilateral memoranda of understanding (MOUs) with foreign regulators, and a multilateral MOU with other IOSCO members. These establish processes and expectations for regulators assisting each other in gathering information for regulatory oversight and investigations.

Our Enforcement Report, which begins on page 65, provides a detailed summary of enforcement activity in fiscal 2014.

Investor education

Our Communications and Education Division continued to focus primarily on the Be Fraud Aware advertising campaign (Strategy 3.1), an initiative to address strategic priorities.

Our goal is to educate investors so they can make informed investment decisions and protect themselves from fraudulent investment schemes. We want investors to assess potential investments and advisers critically before they invest. Research shows that many investors lack the knowledge and understanding they need to make sound investment decisions. For this reason, our Communications & Education division develops targeted programs for various groups from high school students to seniors.

In addition to the *Be Fraud Aware* campaign, raising awareness about the importance of financial life skills is a priority for the BCSC. Financial life skills are the ability to manage money with knowledge and confidence throughout one's life. We give presentations and workshops to student teachers to help them deliver the finances portion of *Planning 10*, a required course for Grade 10 students in BC.

In the past year, BCSC staff trained a total of 240 student teachers and other educators who teach financial life skills to BC high school students. We also presented our adult financial life skills program, SaveSMART, to 100 educators in BC.

Our adult education programs target retirees and pre-retirees—two groups we know to be particularly vulnerable to investment fraud. When they fall victim to a fraud, the financial impact can be life altering because they have less time than younger investors to recover from financial losses. Through our consumer website, *InvestRight.org*, we offer tools and information to help investors avoid and report investment fraud, and to help them understand risk and the basics of making informed investment choices. In addition, BCSC staff conduct province-wide outreach seminars to engage ethnic communities and seniors groups.

In fiscal 2014, we reached nearly 4,000 people directly through our InvestRight seminars and our participation in trade shows and seniors' forums.

Policy-making

We have the authority under the *Securities Act* to make rules, with the approval of the Minister of Finance. We also issue guidance to help market participants understand the rules. We use these tools when regulatory intervention in the market is justified and other tools are insufficient to address the reason for the intervention. Through our work with CSA, we seek to harmonize securities rules to the extent possible while ensuring that BC's capital markets are protected.

During the year, BCSC staff spearheaded a CSA initiative to adopt a new prospectus exemption to enhance capital raising for public companies and reduce barriers to retail investor participation in the public market. The proposal was published for comment and adopted in approximately six months, with all Canadian jurisdictions participating, except Ontario and Newfoundland. (See discussion of the existing security holder exemption under Strategy 1.3 on page 22).

As part of our policy-making work, we actively consult with market participants. During the past year, we consulted with BC market participants on the existing security holder prospectus exemption, proxy-voting infrastructure, the proposed repeal of the Northwest Exemption and the Mortgage Investment Entities (MIE) Exemption, and derivatives market proposals.

We consulted on the existing security holder exemption with TSX-V listed companies, dealers, and lawyers to determine whether the exemption would be valuable to companies and to determine the appropriate conditions. The information we gathered from these consultations helped shape the final exemption we adopted.

In fiscal 2014, we also engaged market participants at our proxy-voting roundtable. We consulted on the most significant issues extracted from the comment letters submitted in response to a CSA proxy-voting consultation paper. The investor and industry remarks and suggested solutions are further sharpening our focus in the next phase of this project.

In considering the potential repeal of the Northwest Exemption, we consulted with BC-based investment dealers and exempt market dealers to gather information about the size, scope, and nature of capital-raising activities conducted by registered dealers for companies listed on the TSX-V in BC. The information we gathered helped us understand the relationship of TSX-V listed companies with registered dealers, as well as persons acting under the Northwest Exemption.

This year, we also consulted with mortgage investment corporations and mortgage syndicators in BC in connection with the potential repeal of the MIE Exemption. The information we gathered helped us better understand their businesses and regulatory framework and the ways in which they raise capital. At the same time, the BCSC answered questions about the registration regime, registrant obligations for these entities, and exemptions, such as the MIE Exemption.

Finally, in cooperation with the ASC, we held two roundtable sessions to provide derivatives market participants with information about proposals to regulate the derivatives market. These sessions focused on derivatives trade reporting, mandatory clearing of derivatives, and the operation of clearing agencies.

BCSC Operating Environment and Capacity

Capital markets are rapidly evolving and becoming increasingly complex and sophisticated. We manage our operations to ensure we have the appropriate resources and capital market expertise to meet these market challenges. We focus our efforts using a risk-based approach, paying more attention to higher-risk firms, companies, and individuals. We allocate resources and manage operations through

- strategic planning and a comprehensive risk-management framework, including our regulatory risk models
- a rigorous annual budgeting process and monthly budget variance reporting
- strong project management and purchasing controls
- succession planning and recruiting to maintain key competencies
- ongoing professional development to meet evolving market developments

We allocated resources to the following national initiatives last year and will continue to do so over the coming year:

- *Upgrading CSA filing systems* — During the year, CSA moved to a new national systems service provider and passed the resulting cost savings to market participants through significant filing system fee reductions. This coming year, CSA plans to issue two Requests for Proposal to select vendors and begin to redesign CSA's shared systems.
- *Regulating OTC derivatives* — The CSA continued its long-term project to regulate OTC derivatives. This supports Canada's G20 financial regulatory commitments.

Funding[1]

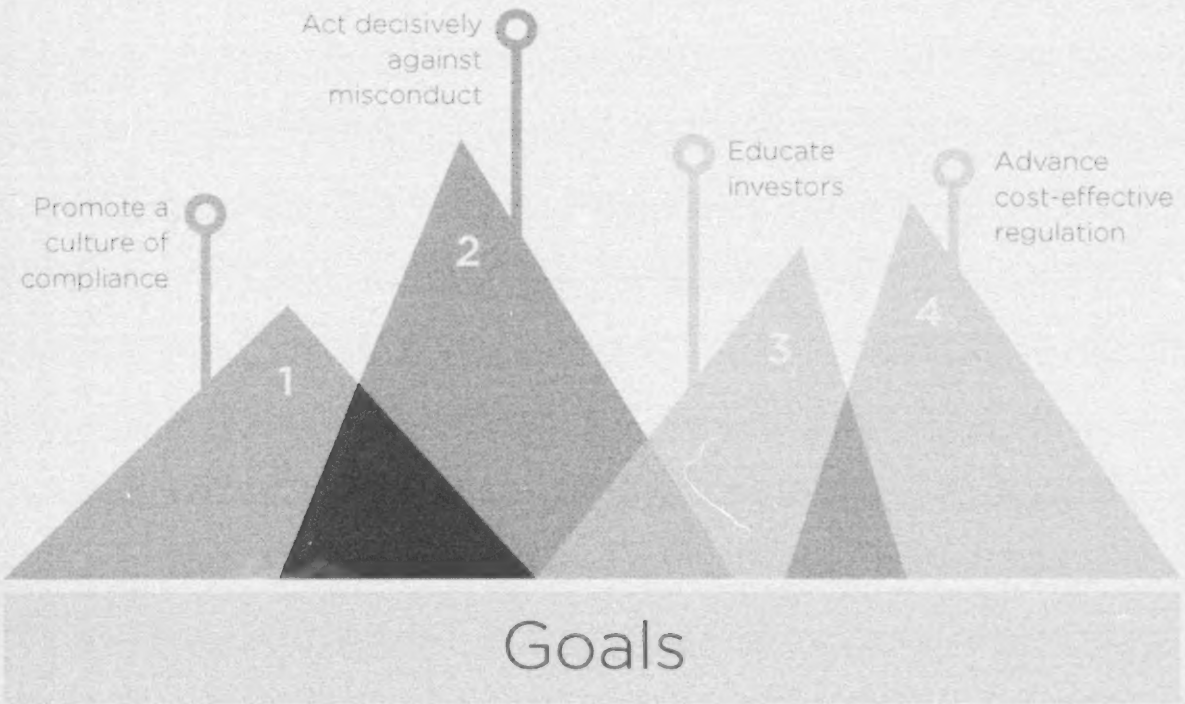
We have not increased fee rates in more than 19 years. Of the $37.7 million revenue increase versus fiscal 2013, $36.6 million relates to the proportionate consolidation, effective April 2, 2013, of a government partnership that oversees the CSA's national filing systems. This includes $23.7 million of one-time revenue from recognizing the partnership. The remaining $1.1 million revenue increase is local and reflects stronger market activity. Of the $10.0 million expense increase versus fiscal 2013, $7.6 million relates to the partnership's national filing systems operations. The remaining $2.3 million expense increase is local and reflects higher effort to complete strategic initiatives, depreciation on new information systems implemented late in 2013 and in 2014, and higher occupancy costs.

($ millions)	Actual						Budget
	2011	2012	2013	2014 Local	2014 Partnership	2014 Change	2015
Revenues	$ 34.9	$ 36.9	$ 37.4	$ 38.5	$ 36.6	$ 37.7	$ 44.3
Expenses	31.2	36.2	38.5	40.9	7.6	10.0	43.2
Surplus (Deficit)	3.7	0.6	(1.1)	(2.3)	28.9	27.7	1.1
Capital additions	0.6	2.2	4.2	5.2	0.2	1.2	3.5

1. Amounts rounded

Report on Performance

This section describes each goal, the strategies supporting it, and the measurable progress we made during fiscal 2014 towards achieving the goals. We also identified three risks in our 2013 Service Plan that present a threat to our mission. Some of the strategies were a direct response to those risks.



Our mission is to protect and promote the public interest by fostering

- *a securities market that is fair and warrants public confidence*
- *a dynamic and competitive securities industry that provides investment opportunities and access to capital*

Strategic Risks

The BCSC has a risk management process to identify and rate strategic risks to our mandate. The BCSC's Risk Management Framework is approved by the board and defines the approach used to assess and manage risks in the market and in operating the BCSC. Those risks assessed as most threatening receive broad management attention. Our top risks have mitigation strategies described in this report.

In the 2013 Service Plan, we identified three risks that posed the most significant threats to investor protection and market integrity.

Risk 1

Illegal distributions and fraud

Companies raising capital from the public must follow rules designed to protect investors and to support efficient and cost effective capital raising. Investors are put at risk when companies do not comply with these rules (called illegal distributions). In the worst cases, illegal distributions are designed to defraud investors.

We view illegal distributions and fraud as a key risk to the public because

- the financial loss can equal the entire savings of households, with a low probability of recovery
- the emotional impacts for the individuals and their families have been well documented

See Strategy 3.1 for steps we have taken, and will be taking, to address this risk.

Risk 2

Non-compliance in the private placement market

Securities may be sold in the private placement market without a prospectus. The private placement market is used by a wide variety of businesses—from start-up venture capital companies to established companies. The private placement market is extremely important for capital raising.

Companies may only solicit money in the private placement market from investors who do not require all of the consumer protection aspects of securities legislation because they

- are more able than other members of the public to withstand loss
- are closely connected to the company or its directors or officers
- have received alternate disclosure provided at the time of the investment, together with risk disclosures

Because many start-up companies fail, this part of the private placement market is inherently risky. There are few disclosure requirements for securities sold in this market and investors cannot easily sell their securities. The challenge for the regulator is to ensure market integrity for the thousands of businesses and investors who participate in this market.

See Strategy 1.1, 1.3 and 2.2 for steps we have taken, and will be taking, to address this risk.

Risk 3

Market misconduct associated with offshore secrecy jurisdictions

The integrity of BC markets is damaged when people trade illegally on inside information, manipulate the market, or engage in other forms of market misconduct using accounts in offshore secrecy jurisdictions.

When offshore secrecy jurisdictions are used to hide illegal activity, it makes an investigation more difficult and time consuming.

Given the extraterritorial nature of the problem, we understand that our activities cannot directly address the problem. Our approach must, by necessity, be indirect. We must target all the activities that facilitate offshore secrecy jurisdiction trading that occur in BC and the participants that facilitate offshore secrecy jurisdiction trading that are in BC or have a connection to BC. Our overall strategy is to increase the cost and effort on the illegal transactions and the individuals who facilitate the illegal activity.

We have addressed this issue by taking enforcement action, but that by itself is not sufficient to fully address the risk. One difficulty is that foreign banking and secrecy laws frustrate our investigations into suspicious activity associated with offshore accounts.

See Strategy 2.3 for additional steps we have taken, and will be taking, to address this risk.

Measurements

This section describes the performance measurements we use to track our progress in achieving our goals through our operating activities. We track progress towards our goals using relevant, long-term measures so that stakeholders can assess our performance over time.

We select measurements based on the following criteria:

- *Connection to our goals* — We choose measurements that will assess our progress in achieving our goals and, through them, our mission.
- *Longevity* — We choose measurements that we will be able to track over several years, and whose trends will provide valuable information for improving our performance.
- *Measurability* — We choose measurements for which we can collect accurate data and establish baselines in a timely way.

We critically evaluate our measurements yearly, to ensure they have integrity and are meaningful. Accordingly, this may result in reconsidering the measure or the data collection method. Management reviews data for accuracy, including investigating any unusual results.

We set targets for each measure on an individual basis that factor in a target's ability to reflect a compliant market, hold BCSC staff accountable for stretch goals, and improve on current results. In fiscal 2014, we achieved 60% of our measurement targets.

For a detailed review of our data sources, collection method and frequency, and controls, refer to pages 39-42 in the 2014/15 - 2016/17 Service Plan available on the BCSC website.

Benchmarks

These measures are not tracked consistently across other CSA jurisdictions so we do not have benchmark comparisons that help gauge our relative performance to our peers.

Promote a culture of compliance

Investors are better protected if securities firms and companies that issue securities understand and comply with their regulatory obligations. They must have effective systems and controls in place to ensure compliance with our rules. We intervene to correct non-compliance when warranted.

Strategy 1.1 / Educate private companies about BC capital-raising rules

(2) *This strategy responds to Risk 2, Non-compliance in the private placement market.*

According to the BC government's *Small Business Profile*, 98% of all businesses in BC are small (50 employees or less). British Columbia ranked first in the country in terms of small businesses per capita in 2012. These businesses require capital to start up and grow.

The BCSC has seen many cases where entrepreneurs did not understand what rules exist to allow their businesses to raise money and how to comply with the rules. This could lead to businesses going accidentally offside. Under this strategy, we planned to let businesses know how to avoid problems that would cost them time and money.

During fiscal 2014, we identified agencies that work with small business and chose the BC Chamber of Commerce because it has approximately 36,000 members in its network representing approximately 10% of businesses in BC.

In consultation with the Chamber and other agencies, we developed a story-based presentation to describe how a small company can raise money under the *Securities Act*. We delivered the presentation to six separate organizations and directly reached over 100 people representing small businesses and their advisers.

Also during fiscal 2014, we developed a guide for small businesses covering a range of capital-raising topics. This guide is available on our corporate and investor websites. Through March 31, 2014, the page with the guide was visited over 3,575 times and the guide itself was downloaded more than 875 times. During the year, we also produced a short animated video that explains the need to understand the capital-raising rules and refers viewers to the guide on the website. Through March 31, 2014, the video was viewed more than 625 times.

Strategy 1.2 / Review the regulatory environment for real-estate-based private placement products

Real estate securities are securities with real estate underlying the investment. Both securities and mortgage regulators regulate these securities.

During fiscal 2014, we completed research about the size of the market for real-estate-based securities and their distribution channels in BC.

During the year, we also reviewed various regulatory regimes for real-estate-based investments. We determined that the *Securities Act* applies to most real estate entities' investment sales activities. The *Securities Act* regulates capital raising and trading, with a focus on investor protection. In addition, we reviewed the disclosure required for real estate securities and concluded that the offering memorandum form used to offer many real estate securities can be improved by adding important information for investors to make an informed investment decision.

After reviewing a survey and the results of focus group discussions with mortgage investment entities, in March 2014 we extended the MIE Exemption until June 2015.

In the coming year, we will focus our dealer compliance team on further testing unregistered dealer compliance with the MIE Exemption. We will also implement additional disclosure about real estate securities.

Strategy 1.3 / Modernize our approach to capital-raising exemptions

(2) This strategy responds to Risk 2: Non-compliance in the private placement market.

During fiscal 2014, the BCSC did extensive work on reforming capital-raising rules, including chairing two major committees.

In November 2013, all CSA jurisdictions, except Ontario and Newfoundland, published a proposed exemption for distributions by listed companies to their existing security holders. This new exemption was adopted in March 2014 to allow companies listed on TSX, TSX-V, and CSE to raise money by distributing securities to their existing security holders. The market was very supportive of this initiative.

The CSA has been examining the dollar thresholds for the Accredited Investor (AI) and Minimum Amount (MA) exemptions to see if they remain a good proxy for sophistication or ability to withstand losses. After reviewing exempt distribution reports and Statistics Canada data, consulting stakeholders, and reviewing enforcement cases, the CSA did not propose changing the current thresholds. Instead, we proposed a new form to better explain to investors the criteria for being an accredited investor and proposed restricting the MA exemption to non-individual investors. The comment period on the proposed amendments expired on May 28, 2014.

The CSA also published proposed amendments to the short-term debt exemption and a proposed new exemption for short-term securitized products, primarily asset-backed commercial paper. The comment period on these proposed amendments expired on April 23, 2014.

Finally, BC requested comment in March 2014 on whether to adopt a start-up crowdfunding exemption similar to Saskatchewan. Other members of the CSA published the start-up crowdfunding exemption and an additional OSC crowdfunding proposal that the BCSC did not publish. Comments on this proposal were due by June 18, 2014.

Measurements

Measurement 1.1 / Percentage of reviewed companies that reduce deficiencies in their continuous disclosure

Our Corporate Finance division reviews company disclosure for non-compliance. At the end of each fiscal year, we retain an independent consultant to analyze the subsequent continuous disclosure of a statistically significant random sample of companies that received comment letters from us during that year. The results of this review show the extent to which our detailed continuous disclosure review work motivated non-compliant companies to improve their disclosure.

Status: Met	Results and targets						
Fiscal	2012 Actual	2013 Actual	2014 Target	2014 Actual[1]	2015 Target	2016 Target	2017 Target
PERCENTAGE OF REVIEWED COMPANIES THAT REDUCE DEFICIENCIES IN THEIR CONTINUOUS DISCLOSURE							
(a) Improved disclosure subsequent to continuous disclosure review	100%	100%	> 95%	100%	> 95%	> 95%	> 95%
(b) Improved disclosure to minimum standards	100%	100%	> 95%	100%	> 95%[2]	> 95%	> 95%

1. All 19 companies reviewed in fiscal 2014 improved their disclosure in some areas to meet the minimum standard for compliance.

2. The target for measurement (b) for fiscal years 2014 through 2017 was previously set to improve year-over-year. Since we achieved 100% compliance in fiscal 2013 and 2014, further improvement is not possible. We have set the forward targets at greater than 95%.

Notes on measurement: This measurement always lags by one year because we have to wait for the next filing cycle to evaluate the year-over-year improvement. Overall, we set targets that are practically achievable and reflect compliant behaviour by companies. The 95% target in measurement (a) reflects that only 1 in 20 companies we reviewed did not improve their disclosure after our review. The 95% target in measurement (b) reflects a similar proportion of companies that did not improve their disclosure to minimum standards.

Measurement 1.2 / The degree to which randomly-sampled mining companies comply with standards for technical disclosure

BC is home to most Canadian mining companies. We randomly select companies from a list of BC-based mining companies and analyze whether those companies' most recent technical disclosure was compliant with NI 43-101 *Standards of Disclosure for Mineral Projects* (the National Mining Rule). This review shows the extent to which a sample of BC-based mining companies is compliant in specific areas of their technical disclosure.

The 2014 results suggest that current compliance efforts, while sufficient to maintain current compliance levels, are not having the desired effect of improving compliance. We have concluded that additional enforcement strategies will be needed to hold companies more accountable for non-compliance.

Status: Not Met	Results and targets						
Fiscal	2012 Actual	2013 Actual	2014 Target	2014 Actual[1]	2015 Target	2016 Target	2017 Target
THE DEGREE TO WHICH RANDOMLY SAMPLED MINING COMPANIES COMPLY WITH STANDARDS FOR TECHNICAL DISCLOSURE							
(a) Filed disclosure	72%	79%	>80%	73%	Improve on 2014 Actual	Improve on 2015 Actual	Improve on 2016 Actual
(b) Company websites	58%	57%	>62%	57%	62%	Increase average by 5% over 2015	Increase average by 5% over 2016

1. The results for fiscal 2014 show a decrease in measured compliance for required filings to levels that are consistent with those seen in 2010 through 2012. This suggests that the 2013 results may be an outlier. Results for voluntary disclosure remain unchanged from 2013 and are consistent with results from 2010 through 2012.

Notes on measurement: We measure the degree to which BC mining companies meet mining disclosure standards. To determine the average score per company, staff review 20 separate disclosure requirements in the National Mining Rule. In our view, an average score for an individual company of 67%, or better, across these 20 requirements indicates that the company is making a reasonable effort to comply.

Measurement 1.3 / Average number of deficiencies per examination in Capital Markets Regulation

Our Capital Markets Regulation division reviews securities firms that are not SRO members for compliance with their regulatory obligations. Using various indicators of risk, we risk rate our firms so that we can determine how frequently and how closely to examine their compliance. We summarize the results of these on-site reviews in the annual Compliance Report Card, on the BCSC website.

Status: Met	Results and targets						
Fiscal	2012 Actual	2013 Actual	2014 Target	2014 Actual	2015 Target	2016 Target	2017 Target
AVERAGE NUMBER OF DEFICIENCIES PER EXAMINATION IN CAPITAL MARKETS REGULATION[1]							
	5.59	4.16	3.95	3.94	3.74	Decrease average by 5% over 2015	Decrease average by 5% over 2016

1. Based on 34 examinations in fiscal 2014. In this context, "examinations" include inspections and full examinations.

Notes on measurement: The deficiencies from for-cause exams are excluded. The target is set to decrease these percentages as a sign of increased industry compliance. A 5% year-over-year reduction is an ambitious target because of the large number of newly registered businesses.

Goal 2

Act decisively against misconduct

We aim to achieve timely enforcement through early intervention and the pursuit of cases that will deter future misconduct. We aggressively pursue securities fraud cases and other misconduct through administrative proceedings. Under administrative proceedings, the BCSC can impose monetary sanctions, and order people out of the market. We also work closely with Crown Counsel to pursue criminal charges, where warranted. Criminal convictions allow for the imposition of penalties, including prison sentences, which help deter serious misconduct.

Strategy 2.1 / Automate monitoring of internet, social media sites, and spam

Capital market participants use social media, blogs, and investor relations websites to communicate with investors. Many investors use the web as a primary research tool for making their investment decisions. Automating the manual processes that we use to monitor web activity would expand our field of vision and enable us to identify and act to stop compliance failures quicker.

We reviewed a number of different software applications that are useful for investigating specific targets using social media. We increased our ability to monitor specific targets by implementing some of that software.

Strategy 2.2 / Pursue non-compliance with registration requirements in the private placement market

(2) This strategy responds to Risk 2: Non-compliance in the private placement market.

The private placement market is used by a wide variety of businesses—from start-up venture capital companies to established companies. Our objectives in the private placement market are to have

- companies and dealers in this market comply with the rules
- rules that achieve a balance between protecting those who are eligible to invest and promoting efficient capital raising

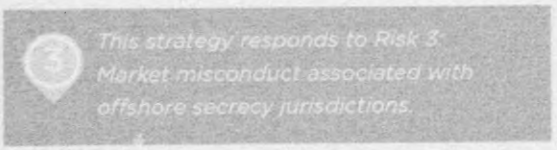
We conduct compliance reviews of exempt market dealers who sell private placement securities and monitor promoters who have claimed an exemption from the dealer registration requirements, despite receiving a fee for their services.

During fiscal 2014, we reviewed compliance with securities laws in the registered exempt market dealer community. To a lesser degree, we reviewed compliance among unregistered dealers claiming to rely on the Northwest Exemption or MIE Exemption, or that did not appear to be relying on any exemptions.

In the fourth quarter, we launched the new private placement risk model discussed under Strategy 4.1. Among other things, the risk model pulls information together from a number of sources to highlight those who appear to be trading securities in the private placement market in a way that would require registration. Previously, staff spent significant time to gather this information manually.

During the year, we continued to consider changes to dealer registration exemptions. As discussed under Strategy 1.2, we extended the MIE Exemption. We made no decision in this fiscal year on whether to remove the Northwest Exemption that allows unregistered persons to trade securities in connection with certain prospectus-exempt distributions.

Strategy 2.3 / Disrupt manipulative trading from offshore secrecy jurisdictions



Bank secrecy laws and nominee account holders frustrate our investigations into insider and manipulative trading in offshore accounts. The objective of this strategy was to obtain more information about dealers that trade in the US OTC markets and about the orders they may receive from secrecy jurisdictions.

During fiscal 2014, we worked with IIROC to design and administer a survey of all BC-based firms and some firms based outside BC. In Q1 2013, we gathered information from those firms about trading activity they facilitated for entities from offshore secrecy jurisdictions (TSX-V and US OTC-listed securities only). Some jurisdictions have signed IOSCO's multilateral memorandum of understanding for information sharing, while other jurisdictions have not. The survey tested for non-individual accounts from those jurisdictions with high balances as of March 31, 2013. In the next fiscal year, we plan to request additional trading information and balances at the end of each day's trading. This additional information will give us a more complete view of offshore secrecy jurisdiction trading.

Also during the year, we conducted a sweep of BC-connected newsletter writers to check compliance with the exemption that allows them to provide advice without being registered. The exemption requires that newsletter writers disclose to investors the interests they hold in companies whose securities they write about, including financial interests. We did not find that any of the newsletter writers we reviewed required registration, nor were any referred to Enforcement. We did find that the disclosure quality was generally poor, as the newsletter writers did not disclose what securities they held at the time of writing their newsletters.

During the year, the executive director issued a notice of hearing and temporary order against a Swiss private bank and investment dealer offering offshore brokerage services, alleging that it acted on behalf of BC residents without registration (See further discussion of Bank Gutenberg on page 70 in the Enforcement Report). The executive director also issued a notice of hearing against Alnoor Ramji alleging that he used nominee accounts in the name of companies incorporated in Panama or Belize to conceal his identity in buying and selling shares of the shares of a company trading on the US OTC markets. Gibraltar Global Securities Inc., which the BCSC sanctioned in May 2012, allegedly provided the companies from Panama and Belize to Ramji and the nominees. The allegations in these notices of hearing have not been proven.

Measurements

Measurement 2.1 / Action in response to ongoing misconduct

This measure focuses our efforts on early detection and shows our ability to take early action to stop misconduct. We can significantly reduce harm to the public when we can identify and act quickly to disrupt misconduct. Stopping investment schemes before they start and preventing further participation in existing schemes is more effective than prosecuting them after there is damage to investors. Disruptive action provides a visible, valuable benefit to the public.

Status: Not Met	Results and targets						
Fiscal	2012 Actual	2013 Actual	2014 Target	2014 Actual	2015 Target	2016 Target	2017 Target
AVERAGE DURATION OF COMPLAINT TO ACTIONS							
Number of actions[1]	N/A	N/A	N/A	140[2]	154	Increase 10% over 2015	Increase 10% over 2016
Average duration of complaint to actions	93 days	73 days	66 days	72 days	65 days	Decrease average by 10% over 2015	Decrease average by 10% over 2016

1. *We revised this measurement methodology in fiscal 2014. Therefore, we have not included measurements for prior years because they are not comparable.*

2. *2014 should be considered a benchmark for this measure as we changed the approach to measurement for 2014. Implementation and use of the Enforcement Case Management system has improved our reporting, resulting in an increased number of actions.*

Notes on measurement: We track a specific number of intervention types and measure how long it took us to implement the intervention from the opening of the complaint. We measure this statistic by capturing the first disruptive action taken within one year of the case opening and the time taken to implement the disruptive action.

Disruptive actions include

- freeze orders
- demands
- production orders

We set our future targets to increase the number of disruptive actions as well as to reduce the average time to take action. Management believes a 10% increase in number of disruptive actions and 10% decrease in time taken reflects achievable operational improvements.

Measurement 2.2 – Timely resolution of enforcement cases

We want to be transparent about the average time our administrative enforcement process takes.

Status: Not Met	Results and targets						
Fiscal	2012 Actual	2013 Actual	2014 Target[1]	2014 Actual	2015 Target	2016 Target	2017 Target
AVERAGE LIFE, IN MONTHS, OF CASES RESOLVED VIA SETTLEMENT OR ENFORCEMENT DECISION	N/A	N/A	14	15.1[2]	22[3]	Set according to review	Set according to review

1. *We revised this measurement methodology in fiscal 2014. Therefore, we have not included measurements for prior years, because they are not comparable.*

2. *In fiscal 2014, 7 of our 27 cases significantly missed the target. We expected not to meet the target, given the nature of some of our investigations.*

3. *We base the 2015 target on current active cases. For fiscal 2015, our target increases for a variety of reasons, including more complex cases, more rigorous evidence handling, and delays in acquiring evidence.*

Notes on measurement: We measure the average case duration from case opening to issuing the Notice of Hearing or, absent a Notice of Hearing, the settlement agreement.

Educate investors

Our goal is to help investors protect their financial interests. We want investors to have the confidence to research and assess potential investments before they invest.

We focus on these core areas to support a successful investor education program:

- *Increase public awareness* — We increase awareness of our education programs so that investors learn the skills they need to help them protect their finances.
- *Reach investors early* — We expand financial life skills programs to help investors spot fraudulent investments before they suffer investment losses.
- *Strengthen investor education* — We provide tools and information to help investors get better service and advice.
- *Develop partner relationships* — We build partnerships to reach ethnic and religious communities throughout the province.

Strategy 3.1 / Be Fraud Aware campaign

This strategy responds to Risk 1: Illegal distributions and fraud.

In October 2011, the BCSC began a three-year campaign to raise awareness about the warning signs of investment fraud. We want British Columbians to fraud-proof themselves by recognizing and avoiding investment fraud and to support our enforcement efforts by reporting investment fraud when they encounter or suspect it.

The past three years comprise the first phase of a long-term social marketing approach to changing the way people think about investment fraud. We used TV, radio, print, online advertising, and social media to reach communities throughout BC. In the final year, we also launched our first major partnership by joining forces with the Vancouver Canucks hockey team to reach British Columbians through their love of hockey.

Annual third-party tracking since 2011 shows that our target audiences in the general population, Chinese, and South Asian communities are very aware of the *Be Fraud Aware* advertising. They like it, find it relevant and easy to understand, and they recall the key message to *be aware of fraud*. A majority believes that the advertising leaves them better able to recognize investment fraud. The research further shows increased willingness to report fraud among those who have been exposed to the campaign and a greater likelihood to seek information from the BCSC after seeing the ads. Those aged 55 and above in all communities are most likely to do so.

With the first phase concluded, we now take on the challenge of maintaining the awareness garnered over the past three years and aim to increase understanding and buy-in for investor self-protection and the reporting of known or suspected investment fraud.

Measurements

Measurement 3.1 / Complaints and tips received as a result of InvestRight programs

Through our public awareness and outreach programs, we aim to increase the flow of complaints and information we receive about possible investment frauds or illegal activities. We track the number of referrals, tips, queries, and complaints received by BCSC Inquiries that are traceable to InvestRight investor education activity.

Status: Not Met	Results and targets						
Fiscal	2012 Actual	2013 Actual	2014 Target	2014 Actual	2015 Target	2016 Target	2017 Target
NUMBER OF COMPLAINTS AND TIPS RECEIVED AS A RESULT OF INVESTRIGHT PROGRAMS	147	312	328	201[1]	Set new baseline	Increase 5% over 2015	Increase 5% over 2016

1. Last year we attributed the significant increase over 2012 to English-language television commercials. Although TV advertising continued in fiscal 2014, we attribute this year's 36% drop to a change in call-to-action, from "learn more" to "report fraud". We infer that the more specific call-to-action resulted in fewer general information calls to BCSC Inquiries. We note that this year's result represents a 37% increase over 2012. Five Enforcement cases were opened for assessment during the year that we can trace to our investor education activity.

Notes on measurement: We set these targets according to the expectation that InvestRight education activities will generate more enforcement leads over time. The three-year *Be Fraud Aware* advertising campaign that concluded this year increased engagement between the public and the BCSC by 158% from when we launched the campaign. This has enabled us to better connect that engagement to potentially high-value tips.

With more modest budgets for investor education in the coming years, we can expect to see an overall decrease in calls to BCSC Inquiries. For this reason, we expect to set a new baseline and return to the incremental increases anticipated in this measure.

Measurement 3.2 / Percentage of workshop participants who recall investor education warning signs (Red Flags)

We deliver investor education workshops to BC residents, primarily seniors and pre-retirees. Our goal is to grow awareness of the warning signs of investment fraud. We use an independent consultant to conduct a follow-up phone survey with each participant who previously agreed to be contacted. To determine recall of investment fraud warning signs among British Columbians who attend our presentations, the consultant contacts each person within three months and asks, *"Can you name the warnings signs of investment fraud?"*

Status: Met	Results and targets						
Fiscal	2012 Actual	2013 Actual	2014 Target	2014 Actual	2015 Target	2016 Target	2017 Target
PERCENTAGE OF WORKSHOP PARTICIPANTS WHO RECALL THREE INVESTOR EDUCATION WARNING SIGN MESSAGES (RED FLAGS)	19%	28%	31%	42%[1]	45%	Increase 3% over 2015	Increase 3% over 2016

1. A further 15% and 7% recalled four and five warning signs, respectively.

Notes on measurement: We can influence this measure by building awareness of the BCSC InvestRight brand, creating tightly-messaged presentations, sending strong presenters to each workshop, and contacting attendees within three months of hearing the messages. We can't control it, however, because people's willingness to volunteer for the follow-up survey doesn't correlate with their attentiveness during the presentation. We maintain the 3% target recognizing that a move away from mass media advertising will result in a return to the incremental increases anticipated in this measure.

Although improved data collection largely accounts for the 2012 to 2013 increase, direct experience with the people who attend our seminars shows that we can attribute continuing gains to their familiarity with the *Be Fraud Aware* advertising campaign. Participants' recognition and enjoyment of the TV commercials has the tangible impact at seminars and tradeshows of drawing people to our message and making it more accessible.

Measurement 3.3 / Percentage of BC public aware of BCSC

We aim to build awareness of the BCSC and our many investor education resources so that British Columbians will know where to turn when faced with a possible fraud or unsuitable investment opportunity. We use third-party research either as part of a larger research effort or specifically for this measure. We survey British Columbians aged 18+ in keeping with the BCSC's province-wide mandate and because investment fraud can happen at any age to anyone with savings and/or other assets. The majority of our programs target retirees and pre-retirees and we focus our advertising dollars in regions where we know people have been defrauded.

Status: Met	Results and targets						
Fiscal	2012 Actual	2013 Actual	2014 Target	2014 Actual	2015 Target	2016 Target	2017 Target
PERCENTAGE OF BC PUBLIC AWARE OF BCSC							
Very or somewhat familiar[1]	35%	42%	> 45%	49%[2]	> 45%	> 45%	> 45%

1. We have restated 2012 and 2013, based on the data collection method used to report 2014 results.

2. This measure captures aided awareness province-wide among adults 18 and over.

Notes on measurement: From 2011 to 2013, the BCSC reported unaided awareness from a provincially representative online survey. The target was a stretch goal for what we could practically achieve. The question asked was, *"Is there a provincial agency responsible for regulating securities investments in your province?"*

To better capture provincial awareness of the BCSC and track the public's level of familiarity with the BCSC by name, this year we begin reporting on aided awareness from a provincial telephone survey among randomly interviewed respondents. This question asks, *"As you may know, there is a provincial agency in British Columbia responsible for regulating securities investments called the BC Securities Commission. Now that we have mentioned the BC Securities Commission, how familiar would you say you are with this agency?"* We believe that aided awareness better reflects the BCSC's brand recognition, given the BCSC's investment in raising awareness about investment fraud through *Be Fraud Aware* public awareness campaign.

Advance cost-effective regulation

Our goal is to advance cost-effective regulation. Regulation imposes costs through fees, compliance costs, and restrictions on innovation. Investors inevitably pay these costs. We aim to provide strong investor protection and market integrity for the least cost.

We advance cost-effective regulation by focusing on the following three core areas:

- *Emphasize practical solutions* — When the market cannot fix market problems, we emphasize practical solutions, looking at the full range of potential regulatory responses and advancing only those that will provide significant benefits that exceed the costs.
- *Use our resources efficiently* — We deploy our resources efficiently through risk management, teamwork, and relevant performance measures.
- *Deliver services reliably* — We deliver key regulatory services, on a timely basis, recognizing that delay adds to costs for market participants.

Strategy 4.1 / Build risk-based approaches for critical regulatory operations

Implementing predictive risk models builds a strong foundation for making consistent and defensible oversight decisions based on data from regulatory filings and other data sources. BCSC compliance and oversight staff use these models to both identify higher-risk market participants for review and plan our oversight approach. This focuses the BCSC's experience and judgment on higher-risk market participants and translates into lower-risk market participants experiencing a lighter-touch oversight approach.

During fiscal 2014, we put three predictive risk models and one risk trigger model into production:

- *Registered firms* — to reduce the risk of significant compliance deficiencies and allocate compliance review resources
- *Individual registration applicants* — to reduce the risk of unqualified and unethical individual registrants dealing with the public
- *Public company continuous disclosure* — to reduce the risk of companies providing investors with incomplete, inaccurate, or dishonest information and allocate review resources
- *Private placement filings* — to reduce the risk of non-reporting companies misusing exemptions or providing non-compliant disclosure to investors, and allocate assessment resources

The BCSC is the only securities commission in Canada to use predictive risk models to make effective use of our compliance resources and to apply a risk-based approach to monitoring the private placement market.

Measurements

Measurement 4.1 / Average score on cost-effective regulation scorecard

To measure cost-effective regulation, we use a scorecard that tracks the important steps and outcomes in responding to market problems.

Status: Met	Results and targets						
Fiscal	2012 Actual	2013 Actual	2014 Target	2014 Actual	2015 Target	2016 Target	2017 Target
AVERAGE SCORE ON COST-EFFECTIVE REGULATION SCORECARD							
	90.6%	93%	> 90%	95%[1]	> 90%	> 90%	> 90%

1. In fiscal 2014, we had seven policy projects that qualified for review, none of which was a BC-only initiative.

Notes on measurement: We report the average score of all the projects completed each year. We do not include rules that we adopt purely to harmonize with other jurisdictions in this analysis. The process the CSA uses to create harmonization rules does not consider problem definition in a detailed way or alternative tools. The target of greater than 90% is set so that, on average, we achieve our objectives if we hit the standards on the scorecard in all but one area.

Measurement 4.2 / Average approved project post-implementation score

We assess each local Information Technology (IT)-enabled project at a predetermined time after the project's completion (as documented in the project proposal) and score the project's success relative to its proposed benefits.

Status: Met	Results and targets						
Fiscal	2012 Actual	2013 Actual	2014 Target	2014 Actual	2015 Target	2016 Target	2017 Target
AVERAGE APPROVED PROJECT POST-IMPLEMENTATION SCORE							
	100%	93%	> 80%	90%[1]	> 80%	> 80%	> 80%

1. In fiscal 2014, we assessed two projects.

Notes on measurement: Our objective is that our IT-enabled projects will be well executed. We recognize that there will frequently be issues from which we can learn. We consider an 80% post-implementation score to evidence a successful and well-run project.

Financial Report

Management Discussion & Analysis

For the Year Ended March 31, 2014

We prepared this discussion and analysis of financial position and results of operations of the British Columbia Securities Commission (BCSC) on May 8, 2014. Read it in conjunction with our audited financial statements for the year ended March 31, 2014.

We prepared the financial information in this report in accordance with Canadian public sector accounting standards. We report in Canadian dollars. We round totals and percentages. Year references are to fiscal years ending March 31.

Financial Highlights

BCSC is the provincial crown corporation responsible for regulating BC capital market activity. Effective April 2, 2013, results include 25% of a government partnership (Partnership) that operates certain national electronic filing and payment systems. We refer to all other operating results as local (Local).

Management Discussion & Analysis

For the Year Ended March 31, 2014

(millions)	Actual 2013	Budget 2014	Actual 2014	Positive (negative) vs Budget	Positive (negative) vs 2013
REVENUE					
Local filing fees					
Prospectus and other distributions	$ 18.3	$ 19.6	$ 20.9	$ 1.3	$ 2.6
Registration	11.1	11.9	11.1	(0.8)	0.1
Financial filings	4.7	5.1	5.0	(0.1)	0.3
Other fees	0.2	0.2	0.2	-	-
	$ 34.2	$ 36.7	$ 37.2	$ 0.5	$ 3.0
Other revenue					
National filing systems income	$ -	$ 7.5	$ 12.9	$ 5.4	$ 12.9
Enforcement sanctions	1.0	0.4	0.7	0.3	(0.3)
BCSC investment income	2.2	0.6	0.7	0.1	(1.6)
TOTAL REVENUE	$ 37.4	$ 45.2	$ 51.4	$ 6.2	$ 14.0
EXPENSES					
Salaries and benefits	$ 27.0	$ 25.8	$ 28.8	$ (3.0)	$ (1.8)
Other expenses	11.5	15.2	12.0	3.2	(0.5)
National filing systems expenses	-	3.7	6.5	(2.8)	(6.5)
National filing systems transition costs	-	0.3	1.1	(0.8)	(1.1)
TOTAL EXPENSES	$ 38.5	$ 45.0	$ 48.5	$ (3.4)	$ (9.9)
Surplus (deficit) before special item	$ (1.1)	$ 0.2	$ 2.9	$ 2.7	$ 4.0
Surplus on recognition of partnership	-	-	23.7	23.7	23.7
Surplus (deficit)	$ (1.1)	$ 0.2	$ 26.6	$ 26.4	$ 27.7
SUPPLEMENTARY INFORMATION					
Unrestricted surplus	$ 30.9	$ 28.4	$ 28.8	$ 0.4	$ (2.1)
Restricted surplus	0.5	27.5	28.9	1.4	28.4
Local capital expenditures	4.2	7.6	5.2	2.4	(1.1)
Debt	-	-	-	-	-

Consolidated results were significantly above budget and last year. One-time revenue from Partnership recognition and record high Local distribution activity were only partly offset by higher Partnership filing systems expenses and transition costs, lower Local investment income, and flat Local registration activity. Local salary expenses were also above budget, but Local professional fees were below budget, both because we used temporary employees in place of contractors on several projects.

Management Discussion & Analysis

For the Year Ended March 31, 2014

Capital spending increased to improve Local IT capabilities and to accommodate staffing changes. Most significantly, we implemented four predictive risk models that enable us to focus regulatory oversight on higher risk market participants, and we increased our office space by 13%.

We remain financially strong, ending the year with $29.4 million in Local cash and investments, sufficient to maintain regulatory operations through a protracted market downturn.

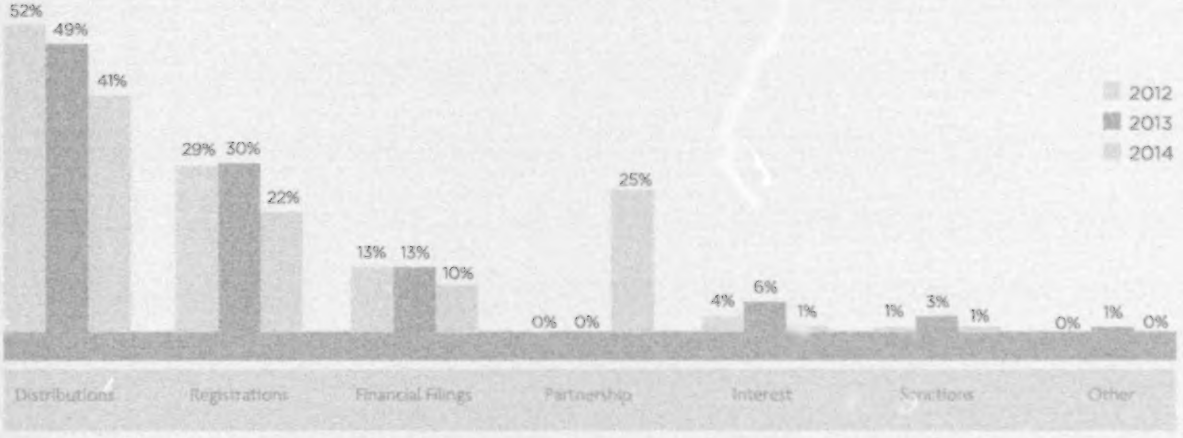
Revenues

Most Local funding is from distribution, registration, and financial filing fees paid by market participants under the *Securities Act*. The remainder of Local revenue is investment income and enforcement sanctions.

Partnership revenue is mostly from fees paid by market participants to use certain national filing and payment systems. The rest of Partnership revenue is investment income and data dissemination fees.

Proportion of total revenue, by source and year

(excludes surplus on recognition of partnership)



Local fee revenue

We collect the following fees:

- *Distribution fees*, from public companies, private companies, and mutual funds, to file disclosure documents, which can include fees related to the amount, called proceeds, of the offering
- *Registration fees*, from firms and individuals, to register with us to sell or advise on securities
- *Financial filings fees*, from public companies and mutual funds, to file annual and interim financial statements
- *Other fees*, from market participants, primarily to request *Securities Act* exemptions

Capital markets activity can be volatile. We designed our fee model to generate sufficient revenue to fund our operations through market cycles, so that our regulatory capacity is not compromised during a sustained downturn. We may generate surpluses during high points in the market's cycle, and deficits during low points.

The two most significant sources of fees are those paid by mutual funds to distribute securities and file financial statements, and those paid by the five largest Canadian banks to register their representatives.

Enforcement sanctions

We order administrative penalties and the return of ill-gotten gains to victims (disgorgements) under the *Securities Act*. We also negotiate settlements, which sometimes include monetary sanctions. We recognize sanctions that are collectible as revenue, and appropriate these revenues to our education reserve, an internally restricted fund. Enforcement sanctions vary significantly between periods.

We spend education reserve funds only to educate securities market participants and the public about investing, financial matters, and the operation and regulation of securities markets.

Year ended March 31

(millions)	2014	2013
ENFORCEMENT SANCTIONS		
Current period sanctions	$ 2.5	$ 22.2
Uncollectible portion of sanctions not recognized	(1.9)	(21.6)
Recovery of prior year uncollectible sanctions	0.1	0.4
Sanction revenue	$ 0.7	$ 1.0

Collecting sanctions is difficult. Collection targets often have limited assets, have poor credit, or have left BC. We have collected less than 10% of the amount sanctioned since our incorporation on April 1, 1995. We pursue outstanding amounts vigorously. However, of $207.6 million outstanding, only $0.2 million is likely collectible and accrued in our financial statements. About 80% ($167.0 million) of the outstanding sanctions relates to eight cases. About 48% ($100.1 million) of the outstanding sanctions relates to disgorgement orders.

Investment income

Our prime investment objectives for surplus funds are capital preservation and sufficient liquidity so we can meet our expenditure commitments. We invest in liquid, high quality money market instruments, government securities, and investment-grade corporate debt securities.

Management Discussion & Analysis

For the Year Ended March 31, 2014

Local revenue analysis

Revenues were 2% higher than budget. The size, not volume, of distributions in all categories (mutual funds, non-mutual funds, and exempt), and higher than budget sanctions, were partly offset by very low non-mutual fund prospectus volumes, and low registration growth. We budgeted significant registration growth that did not materialize.

Year ended March 31

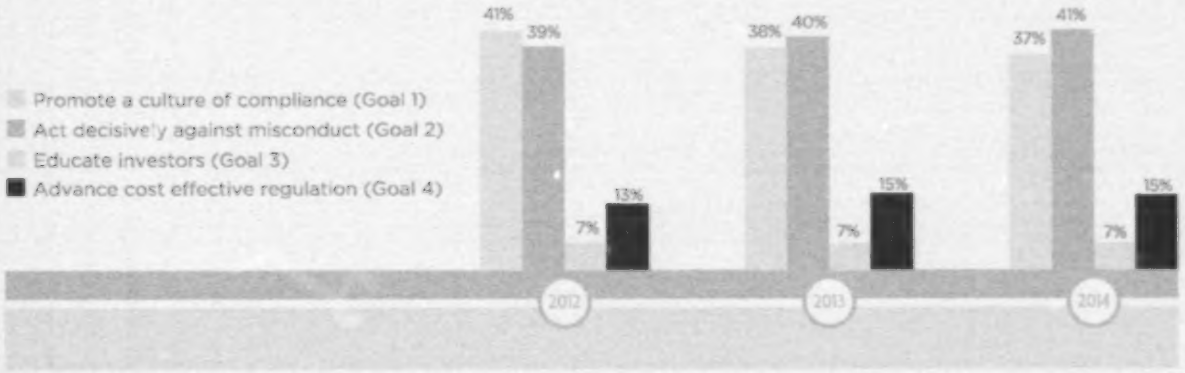
(thousands)	2014 versus Budget				2014 versus 2013			
	2014	Budget	Variance	%	2014	2013	Variance	%
LOCAL REVENUES								
Distribution	$ 20,900	$ 19,550	$ 1,350	7%	$ 20,900	$ 18,260	$ 2,640	14%
Registration	11,150	11,900	(750)	-6%	11,150	11,094	56	1%
Financial filings	4,969	5,100	(131)	-3%	4,969	4,683	286	6%
Exemptions and other	172	150	22	15%	172	163	9	6%
Sanctions	677	400	277	69%	677	998	(321)	-32%
Investment income	655	600	55	9%	655	2,220	(1,565)	-70%
	$ 38,522	$ 37,700	$ 822	2%	$ 38,522	$ 37,419	$ 1,103	3%

Revenues increased 3% versus 2013. The higher distribution activity noted above, and higher financial filing revenue due to the timing of filings were partly offset by lower investment income and sanctions. Investment income fell 70% because in 2013 we recognized accumulated capital gains in our investment portfolio.

Expenses

Salaries, benefits, and occupancy costs account for about 80% of Local expenses. We are committed to managing Local expenses so they do not exceed expected Local revenue over market cycles. We do this by preparing an annual budget approved by the board, monthly budget variance reporting to management, and requiring board approval of significant expense variances.

Allocation of salaries expense, by strategic goal



Most Partnership expenses are fees paid to the contracted national systems service provider.

Local and Partnership operations are exempt from income taxes. Locally, we pay PST (7%) and GST (5%) on taxable purchases, but recover the GST. To October 12, 2013, the Partnership collected and remitted HST on filing systems usage fees, and paid recoverable HST on taxable purchases. Effective October 12, 2013, Partnership fees are HST-exempt and the Partnership pays recoverable HST on taxable purchases.

Local salaries and benefits

Employee salaries and benefits account for over 70% of Local expenses. We compete for professional staff with law and accounting firms, the securities industry, and other regulators. Like most of our competitors, our compensation package includes performance-based salary increases. To remain competitive, we conduct salary surveys annually and make adjustments as appropriate. However, government has frozen executive and management salaries.

Local occupancy costs

We run Local operations from a downtown Vancouver office, to be close to the reporting issuers and registrants that we regulate. Our 61,000 square feet of space cost us about $50 per square foot for 2014, under a lease that expires in November 2021.

Local professional services

We engage consultants when outsourcing is more cost-effective than performing the work ourselves. 2014 professional service costs related primarily to the following:

- Risk model implementation consulting
- Legal services and expert opinions
- Fees paid to IIROC for registration services delegated to them
- Our share of CSA project and management costs
- Legislative counsel services
- Interview and hearing transcription services
- Data entry services
- Internal and external audit services

Local education

We educate securities market participants and the public about financial literacy, investment fraud, and the operation and regulation of securities markets. 2014 education spending related primarily to completing the last year of a three-year *Be Fraud Aware* investor education campaign aimed at protecting BC investors province-wide from investment fraud.

Local depreciation and capital spending

Our Local capital spending and related depreciation relate primarily to computer systems and applications, and to renovations that accommodate staffing changes.

Local information management

We spend on information systems and management to improve access to our services and information, to increase our

capacity to monitor and analyze market activity, and to increase the efficiency of our processes. Information management has three main components:

- Software licensing and maintenance fees
- Electronic information services and hardcopy materials
- Physical record scanning and storage costs

Local expense analysis

Expenses were slightly under budget. Higher than expected severance was offset by lower depreciation due to longer IT useful lives, lower project-related training, modestly lower travel, and lower education and information management due to project timing.

The salaries and professional fee variances substantially offset each other: they reflect our project staffing choices. In 2014, we used more temporary employees and fewer consultants on projects. However, 2014 severance totaled $0.8 million, $0.6 million more than budget.

Effective April 1, 2013, our IT amortization period increased to five years from four, based on the expected useful lives of recent and planned IT capital projects. This change, together with lower office renovation costs, netted a $0.5 million positive depreciation budget variance.

Training was $0.2 million under budget, because project-related training cost less than planned.

Year Ended March 31

(thousands)	2014 versus Budget				2014 versus 2013			
	2014	Budget	Variance	%	2014	2013	Variance	%
LOCAL EXPENSES								
Salaries	$ 28,817	$ 25,800	$ 3,017	12%	$ 28,817	$ 27,023	$ 1,794	7%
Professional services	2,378	4,697	(2,319)	-49%	2,378	2,861	(483)	-17%
Occupancy	3,066	3,004	62	2%	3,066	2,659	407	15%
Depreciation	1,447	1,917	(470)	-25%	1,447	938	509	54%
Information management	1,163	1,248	(85)	-7%	1,163	1,179	(16)	-1%
Education	2,168	2,300	(132)	-6%	2,168	2,212	(44)	-2%
Other	1,826	2,066	(240)	-12%	1,826	1,653	173	10%
	$ 40,866	$ 41,032	$ (166)	0%	$ 40,866	$ 38,526	$ 2,340	6%

Expenses increased 6% from 2013. We increased capacity, to execute Service Plan initiatives, and added space and spent more on training to accommodate those staff changes. Depreciation on completed projects also increased.

Average full-time equivalent effort, salaried and contracted, increased by 15, or 7%, to 245, principally reflecting staff changes made in 2013 to advance our risk model, public website, Windows 7, and other IT infrastructure projects. The full-year impact of these staff changes increased costs by $1.7 million. Non-management staff received average 2% merit increases, costing $0.6 million, effective April 1, 2013. However, $0.9 million higher capitalization of effort in 2014 partly offset these increases.

Occupancy costs increased $0.4 million. During 2014, we increased office space by 7,060 square feet, or 13%, to accommodate staff.

Depreciation increased $0.5 million due to sustained higher capital spending over the last several years to increase our organizational capabilities. In the four years since 2010, we invested:

- $2.9 million to implement four predictive risk models that enable us to focus our regulatory efforts on higher risk market participants (completed)
- $1.7 million to improve enforcement file management (stage 1 completed)
- $1.7 million on office renovations to accommodate staffing changes (completed)
- $1.4 million to improve our public website functionality and usability (May 2014 launch)
- $1.3 million to upgrade our office productivity software (completed)

National filing systems partnership

Effective April 2, 2013, the BCSC, together with the Alberta Securities Commission, Ontario Securities Commission, and the Autorité des marchés financiers (collectively, the Principal Administrators or PAs), agreed to govern certain national electronic filing and payment systems on behalf of the Canadian Securities Administrators. Under the arrangements, each of the four PAs has one vote on national electronic filing systems matters. This arrangement is a government partnership, and results in our proportionate consolidation of twenty-five percent of national filing systems assets and operations effective April 2, 2013.

Partnership operations (millions)	Actual 2013	Budget 2014	Actual 2014	Positive (negative) vs Budget	Positive (negative) vs 2013
OPERATIONS					
National filing systems revenues	$ –	$ 7.5	$ 12.9	$ 5.4	$ 12.9
National filing systems expenses	–	(3.7)	(6.5)	(2.8)	(6.5)
National filing systems transition costs	–	(0.3)	(1.1)	(0.8)	(1.1)
Surplus before special item	$ –	$ 3.5	$ 5.2	$ 1.7	$ 5.2
Surplus on recognition of partnership	–	–	23.7	23.7	23.7
SURPLUS	$ –	$ 3.5	$ 28.9	$ 25.4	$ 28.9
Partnership capital expenditures	$ –	$ –	$ 0.2	$ (0.2)	$ (0.2)

Partnership revenues were higher than budget because of the timing of receipts.

During the year, the Partnership transitioned to a new service provider for the national filing systems. The transition took longer than expected, which increased systems and transition expenses.

The Partnership opening assets were comprised principally of previously accumulated systems surpluses, which the OSC held in trust for the CSA and which the CSA contributed to the Partnership. We had not previously recognized any interest in these amounts in our financial statements. Under Canadian Public Sector Accounting Standards, we must record such contributions in income, not as contributed surplus.

Partnership 2014 capital spending was to acquire certain data dissemination assets created by the previous systems operator.

Financial position and liquidity

Use of financial instruments

Local and Partnership operations do not use or invest in complex or higher risk financial instruments, so we do not face significant credit or material market risk. Liquidity risk is also low because our investments are in demand deposits and redeemable, pooled fund units.

Our Local pooled fund investments expose us to interest rate risk because their fair value fluctuates with interest rate changes. An immediate 1% interest rate increase would decrease our investment portfolio value by about $1.2 million. However, we expect rates to increase slowly, if at all, over the coming year, and rate increases would also increase future investment income. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC. The current investment duration of the ST2 Fund is 2.7 years and of the Canadian Universe Bond Fund is 6.9 years.

Liquidity

Cash flow was positive at $13.0 million (fiscal 2013 - $14.0 million) because consolidating $28 million of Partnership cash was only partly offset by investing $7 million, building and acquiring $5.4 million of capital assets, and generating a net $1.7 million from Local and Partnership operations.

Our fee model may result in surpluses and deficits over the market cycle because revenues fluctuate while our costs are mainly fixed. We have sufficient liquidity and capital resources to fund operations through a sustained market downturn. We ended the year with $33.6 million in cash, due primarily to proportionately consolidating the Partnership in 2014, being partly offset by moving more cash into investments to increase interest income.

Assets

Amounts receivable increased $0.4 million to $1.4 million (March 31, 2013 - $0.9 million) because we began proportionately consolidating the Partnership in 2014. Partnership receivables relate primarily to systems usage fees. Local receivables relate primarily to collectible sanctions, GST receivables, national project recoveries, and administrative support cost recoveries due from the Canadian Securities Regulation Regime Transition Office.

Capital assets increased $4.0 million to $10.4 million, net of $1.5 million depreciation. Capital spending related primarily to IT and office improvements, and totalled $5.4 million for the year, as follows:

Project (millions)	
Risk models	$ 1.5
Public website	0.9
Office renovations	0.9
General IT infrastructure	0.8
Windows 7	0.5
Disaster recovery	0.4
Data dissemination assets	0.2
Case management	0.2
	$ 5.4

Prepaid expenses increased $0.3 million to $0.8 million (March 31, 2013 - $0.5 million) because we proportionately consolidated the Partnership beginning in fiscal 2014. Prepaid expenses relate primarily to prepaid software licenses and registration processing fees paid in advance.

We ended the year with a $57.7 million surplus (March 31, 2013 - $31.4 million) because we proportionately consolidated the Partnership beginning in fiscal 2014. The partners have agreed to use the Partnership's accumulated surplus, totalling $28.9 million, only for the benefit of national filing systems users.

Liabilities

Accounts payable increased $0.8 million to $3.0 million (March 31, 2013 - $2.2 million), reflecting the addition of Partnership payables totaling $0.3 million and an increase in project-related consulting work completed but not paid at year-end.

Accrued salaries decreased $2.4 million to $0.7 million (March 31, 2013 - $3.1 million). We paid out fiscal 2013 performance incentives in June 2013, and eliminated incentives effective fiscal 2014.

Deferred revenue remained $7.7 million (March 31, 2013 - $7.7 million) because registration volumes did not grow. Deferred revenue is calendar year registration fees received in advance and amortized to income over the calendar year to which they relate.

Contractual obligations

Our significant contractual obligations at March 31, 2014 relate to our office lease and multifunction devices. Our commitments under those contracts total approximately $24.6 million (March 31, 2013 - $27.7 million), as follows:

(millions)	2015	2016	2017	2018	2019	2020-2022	Total
Leased space and equipment	$ 3.0	$ 3.1	$ 3.1	$ 3.2	$ 3.2	$ 8.9	$ 24.6

Management Discussion & Analysis

For the Year Ended March 31, 2014

Internal control over financial reporting (ICFR)

During the year, we reviewed our ICFR processes and updated documentation where necessary. Our internal auditors tested operating effectiveness of our ICFR as at March 31, 2014 and concluded that the ICFR was operating effectively and that there are no material weaknesses.

There have been no changes that occurred during the most recent year ended March 31, 2014, that have materially affected, or are reasonably likely to materially affect, our ICFR.

Risk management

Risk management approach

We practice enterprise risk management (ERM) to identify and manage our risks. We follow an Australian risk management standard (AS/NZS 4360:2004, or AS 4360). Our ERM process updates the board semi-annually on key risks and supports our strategic planning process. We maintain a business continuity plan and can restore critical functions within five hours.

Local fee revenue

We fund operations primarily from fees paid by market participants. Revenue fluctuates with market activity, rising in strong market conditions and falling in weak market conditions. We have sufficient liquidity and capital to fund operations through a sustained market downturn.

Partnership revenue

The Partnership funds operations primarily from fees paid by market participants. Market volatility does not significantly affect fees. In addition, the Partnership has an accumulated surplus sufficient to fund operations through a sustained period of no or low usage fees.

Reliance on CGI

Under an agreement with CGI Information Systems and Management Consultants Inc. (CGI) that ends on January 13, 2019, CGI operates several national electronic filing systems through which we collect most of our fee revenue. CGI maintains a comprehensive business continuity plan for these systems.

Selected annual information and financial outlook

The table below summarizes actual results for the last five years, our fiscal 2015 budget, and projected results for fiscals 2016 and 2017. The budget and projections are as of the date we prepared the fiscal 2015 Service Plan. We prepared the results, budget, and projections using Canadian generally accepted accounting principles for fiscal 2010, and using Canadian public sector accounting standards for fiscals 2011 through 2017.

The fiscal 2015 budget assumptions reflect our planned actions given our judgment as to the most probable set of economic conditions at the time we prepared the fiscal 2015 Service Plan. Fiscal 2016 and 2017 projection assumptions reflect our planned actions for those periods given our judgment as to the most probable set of economic conditions at the time we prepared the fiscal 2015 Service Plan, together with one or more hypotheses. The hypotheses are assumptions that are consistent with the purpose of the information, but are not necessarily the most likely to occur. Actual results achieved for the fiscal 2015 - 2017 periods will vary from the information presented and those variations may be material.

Management Discussion & Analysis

For the Year Ended March 31, 2014

(millions)	Actual				Actual	Budget	Projected	
	2010	2011	2012	2013	2014	2015	2016	2017
REVENUE								
Local filing fees	$ 30.8	$ 33.5	$ 34.9	$ 34.2	$ 37.2	$ 36.7	$ 37.9	$ 39.9
Other Local revenue	0.6	1.4	2.0	3.2	1.3	1.3	1.3	1.3
Partnership revenue	-	-	-	-	36.6	6.3	6.3	6.3
	$ 31.4	$ 34.9	$ 36.9	$ 37.4	$ 75.1	$ 44.3	$ 45.5	$ 47.5
EXPENSES								
Local salaries and benefits	$ 23.1	$ 23.5	$ 25.9	$ 27.0	$ 28.8	$ 28.7	$ 28.6	$ 29.2
Other Local expenses	7.8	7.7	10.3	11.5	12.0	12.0	11.8	12.0
Partnership expenses	-	-	-	-	7.6	2.6	2.6	6.3
	$ 30.8	$ 31.2	$ 36.2	$ 38.5	$ 48.5	$ 43.2	$ 43.0	$ 47.5
Surplus / (deficit)	$ 0.6	$ 3.7	$ 0.6	$ (1.1)	$ 26.6	$ 1.1	$ 2.5	$ -
Local capital expenditures	$ 0.3	$ 0.6	$ 2.2	$ 4.2	$ 5.2	$ 3.5	$ 1.5	$ 1.5
Partnership capital expenditures	-	-	-	-	0.2	N/A	N/A	N/A
Debt	-	-	-	-	-	-	-	-

The Partnership has not established its 2015 - 2017 capital budgets.

Read the BCSC fiscal 2015 Service Plan for more information about our Financial Outlook.

MD&A Supplement–Compensation Disclosure

For the Year Ended March 31, 2014

Compensation structure

We are accountable to the provincial legislature and the public through the Minister of Finance. Our compensation plan requires *Public Sector Employers' Council* approval.

The BCSC manages its compensation through effective internal governance policies (see page 11 for more information) and practices, including as follows:

- Our audit and human resources committees comprise only independent commissioners appointed by the Lieutenant Governor-in-Council
- The audit committee oversees the BCSC's annual budget and the human resources committee oversees the design and administration of BCSC performance management and compensation practices
- Semi-annually, the human resources committee reviews the chair's performance against her objectives. In consultation with the chair, the human resources committee reviews the performance of other executives and senior managers
- The human resources committee recommends, for board approval, the chair's compensation (currently frozen)
- The chair and executive director consult the human resources committee on the compensation of other executives and senior managers (currently frozen)

We compete with law and accounting firms, the securities industry, and other securities regulators to hire and retain professional staff with securities market expertise.

Compensation philosophy

Our goal is median compensation. We strive to offer remuneration comparable to that offered by competing organizations. To remain competitive, we conduct annual salary surveys and propose adjustments when surveyed position salaries are significantly below the median. Like most of our competitors, our compensation plan includes performance-based salary increases.

MD&A Supplement–Compensation Disclosure

For the Year Ended March 31, 2014

Fiscal 2014 compensation summary

Position	Name	Base	Pension	Other[1]	2014	2013	2012
EXECUTIVE COMMISSIONERS							
Chair	Brenda M. Leong	$ 434,748	$ 46,913	$ 17,590	$ 499,251	$ 499,251	$ 499,251
Vice Chair	Brent W. Aitken	424,451	-	11,847	436,298	436,153	440,773
SENIOR MANAGEMENT							
Executive Director	Paul Bourque	334,312	35,893	17,121	387,326	400,000	400,000
Director, Enforcement	Teresa Mitchell-Banks[2]	241,967	25,761	18,320	286,048	114,446	N/A
Director, Corporate Finance	Peter Brady[2]	226,623	24,077	18,029	268,729	99,410	N/A

Position[3]	Name	Fees	Other[4]	2014	2013	2012
INDEPENDENT COMMISSIONERS						
Commissioner	Judith Downes	$ 84,413	$ 3,124	$ 87,537	$ 8,541	$ N/A
Commissioner	Christopher D. Farber[5]	5,000	190	5,190	N/A	N/A
Commissioner	George C. Glover, Jr.	119,463	144	119,606	15,856	N/A
Commissioner	Audrey T. Ho	82,475	2,932	85,407	12,256	N/A
Commissioner	Gordon Holloway	57,109	2,557	59,666	N/A	N/A
Commissioner	Don Rowlatt	66,800	107	66,907	89,921	55,888
Commissioner	Suzanne K. Wiltshire	130,258	2,472	132,730	89,651	48,780
Retired Commissioners				47,200	223,215	241,865

Total commissioner compensation is fees for all activities including attendance at meetings and hearings. Our independent commissioner compensation policy is located on the BCSC website.

Compensation consultants

During the year, we hired Western Compensation & Benefits Consultants to perform a salary survey.

1. *Other includes long-term disability plan premiums, Canada Pension Plan premiums, parking and transit, extended health and dental plan premiums, professional membership fees, Medical Services Plan premiums, Employment Insurance premiums, Worksafe premiums, group life insurance premiums, and fitness reimbursements.*
2. *Appointed October 2012.*
3. *These are part-time positions.*
4. *Other includes Canada Pension Plan premiums and Worksafe premiums.*
5. *Appointed December 2013.*

Management's responsibility and certification

Management is responsible for ensuring that the financial statements and other financial information included in this annual report (Report) are complete and accurate. Management has prepared the financial statements according to Canadian public sector accounting standards (PSAS).

We certify that:

- We oversaw the design of internal controls to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with PSAS
- We directed the evaluation of the effectiveness of these internal controls over financial reporting (ICFR) and we are not aware of any ICFR gap that has or is likely to materially affect our ICFR
- We have reviewed the financial statements and other information in this Report
- We believe the Report reflects all material facts for the period it covers
- We do not believe the Report misstates any material fact

We believe that the financial statements and other financial information in the Report fairly present in all material respects the financial condition, results of operations and cash flows of the British Columbia Securities Commission (BCSC) as of the dates and for the periods presented. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. It is possible that circumstances will cause actual results to differ. We do not believe it is likely that any differences will be material.

The board is responsible for establishing prudent rules of business and staff conduct. It is the BCSC's policy to maintain the highest standards of ethics in all its activities. The BCSC has an employee conduct policy, including conflict of interest rules for employees and commissioners, to achieve those standards.

The board is also responsible for ensuring that management fulfills its financial reporting and control responsibilities, and has appointed an independent audit committee to oversee the financial reporting process. The committee members are independent commissioners who do not participate in the day-to-day operations of the BCSC. The audit committee meets regularly throughout the year with management, the internal auditors and the external auditors to review the:

- financial statements,
- adequacy of financial reporting, accounting systems and controls, and
- internal and external audit functions.

The internal auditors are responsible for reviewing and evaluating the adequacy of and compliance with the BCSC's internal control standards. The internal auditors report the results of their reviews and make recommendations both to management and the audit committee. The external auditor's responsibility is to express an opinion on whether the financial statements, in all material respects, fairly present the BCSC's financial position, results of operations and cash flows in accordance with PSAS. The internal and external auditors have full and open access to the audit committee, with and without the presence of management.

The audit committee has reviewed these financial statements and has recommended that the board approve them.

The BCSC has appointed BDO Canada LLP (BDO) to be the independent auditor of the Commission. BDO has examined the financial statements and its report follows.

BRENDA M. LEONG
Chair and Chief Executive Officer

PAUL C. BOURQUE
Executive Director

BDO

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vancouver@bdo.ca
www.bdo.ca

BDO Canada LLP
600 Cathedral Place
925 West Georgia Street
Vancouver BC V6C 3L2 Canada

INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the British Columbia Securities Commission

We have audited the accompanying financial statements of the British Columbia Securites Commission, which comprise the Statement of Financial Position as at March 31, 2014, and the Statements of Operations and Change in Accumulated Surplus, Remeasurement Gains and Losses, Change in Net Financial Assets and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly in all material respects, the financial position of the British Columbia Securities Commission as at March 31, 2014 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

Other Matter

The financial statements of the British Columbia Securities Commission for the year ended March 31, 2013 were audited by the Auditor General of British Columbia who expressed an unmodified opinion on those financial statements on May 9, 2013.

BDO Canada LLP

Chartered Accountants

Vancouver, British Columbia
May 8, 2014

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

STATEMENT OF FINANCIAL POSITION

British Columbia Securities Commission
(audited)

	March 31, 2014	March 31, 2013
FINANCIAL ASSETS		
Cash (note 4)	$ 33,593,938	$ 20,579,704
Investments (note 5a)	23,878,013	16,633,044
Amounts receivable (note 6)	1,355,580	939,404
	$ 58,827,531	$ 38,152,152
LIABILITIES		
Accounts payable and accrued liabilities	$ 3,034,677	$ 2,222,358
Accrued salaries	732,486	3,083,046
Deferred registration fee revenue	7,724,673	7,664,623
Employee leave liability (note 7)	888,547	792,065
	$ 12,380,383	$ 13,762,092
NET FINANCIAL ASSETS	$ 46,447,148	$ 24,390,060
Tangible capital assets (note 8)	$ 10,437,960	$ 6,466,674
Prepaid expenses (note 9)	834,697	541,645
	$ 11,272,657	$ 7,008,319
ACCUMULATED SURPLUS	$ 57,719,805	$ 31,398,379
Accumulated Surplus is comprised of:		
Unrestricted surplus (note 10)	$ 29,395,436	$ 31,190,866
Restricted surplus (note 10)	28,944,770	547,924
Accumulated remeasurement losses	(620,401)	(340,411)
	$ 57,719,805	$ 31,398,379

Commitments and contingencies (note 16)

The accompanying notes are an integral part of these financial statements.

Approved by the Board:

BRENDA M. LEONG
Chair and Chief Executive Officer

SUZANNE K. WILTSHIRE
Chair, Audit Committee

STATEMENT OF OPERATIONS AND CHANGE IN ACCUMULATED SURPLUS

British Columbia Securities Commission
(audited)

For the Year Ended	March 31, 2014 Budget (note 17)	March 31, 2014 Actual	March 31, 2013 Actual
REVENUES			
Regulatory and other fees			
Prospectus and other distributions	$ 19,550,000	$ 20,899,683	$ 18,260,489
Registration	11,900,000	11,149,601	11,094,312
Financial filings	5,100,000	4,969,257	4,682,779
Exemptive orders and other (note 5b)	150,000	215,467	163,409
National filing systems access and usage fees (note 5b)	7,500,000	12,549,416	-
Enforcement sanctions (note 11)	400,000	677,077	998,179
Investment income (note 5b, 12)	600,000	936,278	1,016,487
Realized gains on investments (note 12)	-	824	1,203,315
	$ 45,200,000	$ 51,397,603	$ 37,418,970
EXPENSES (note 13)			
Local operations	41,032,000	40,865,822	38,526,019
National filing systems operations (note 5b)	3,750,000	6,550,401	-
National filing systems transition costs (note 5b)	250,000	1,082,654	-
	$ 45,032,000	$ 48,498,877	$ 38,526,019
Surplus (deficit), before special item	$ 168,000	$ 2,898,726	$ (1,107,049)
Surplus on recognition of partnership (note 5b)	-	23,702,690	-
Annual surplus (deficit)	$ 168,000	$ 26,601,416	$ (1,107,049)
Accumulated surplus, beginning of year		$ 31,738,790	$ 32,845,839
Accumulated surplus, end of year		$ 58,340,206	$ 31,738,790

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

British Columbia Securities Commission
(audited)

For the Year Ended	March 31, 2014	March 31, 2013
Accumulated remeasurement gains (losses), beginning of year	$ (340,411)	$ 755,702
Unrealized gain (loss) on investments (note 12)	(279,166)	107,202
Realized gain on investments, reclassified to operations (note 12)	(824)	(1,203,315)
Accumulated remeasurement losses, end of year	$ (620,401)	$ (340,411)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

British Columbia Securities Commission
(audited)

For the Year Ended	Budget (note 17)	March 31, 2014 Actual	March 31, 2013 Actual
Surplus (deficit), for the year	$ 168,000	$ 26,601,416	$ (1,107,049)
Acquisition of tangible capital assets (note 8)	$ (7,613,501)	$ (5,428,225)	$ (4,168,615)
Amortization of tangible capital assets (note 8)	1,917,000	1,456,939	938,322
	$ (5,696,501)	$ (3,971,286)	$ (3,230,293)
Acquisition of prepaid expenses (note 9)		$ (1,459,746)	$ (926,127)
Use of prepaid expenses (note 9)		1,166,694	881,068
		$ (293,052)	$ (45,059)
Effect of net remeasurement losses for the year		$ (279,990)	$ (1,096,113)
Increase (decrease) in net financial assets, for the year		$ 22,057,088	$ (5,478,514)
Net financial assets, beginning of year		$ 24,390,060	$ 29,868,574
Net financial assets, end of year		$ 46,447,148	$ 24,390,060

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

British Columbia Securities Commission
(audited)

For the Year Ended	March 31, 2014	March 31, 2013
OPERATING TRANSACTIONS		
Cash received from:		
Fees (note 5b)	$ 48,992,204	$ 34,247,965
Enforcement sanctions (note 11)	862,553	691,843
Interest (note 12)	412,143	51,620
	$ 50,266,900	$ 34,991,428
Cash paid for:		
Cash paid to and on behalf of employees (note 5b and 13)	$ (31,086,317)	$ (26,846,274)
Cash paid to suppliers and others (note 5b and 13)	(17,440,815)	(10,445,586)
	$ (48,527,132)	$ (37,291,860)
Cash provided (used) by operating transactions	$ 1,739,769	$ (2,300,432)
CAPITAL TRANSACTIONS		
Cash used to acquire tangible capital assets (note 8)	$ (5,428,225)	$ (4,168,615)
INVESTING TRANSACTIONS		
Proceeds from disposals of investments	$ 2,000,000	$ 93,484,333
National filing systems partnership (note 5b)	23,702,690	-
Investments	(9,000,000)	(72,984,333)
	$ 16,702,690	$ 20,500,000
Increase in cash	$ 13,014,234	$ 14,030,953
Cash, beginning of year	$ 20,579,704	$ 6,548,751
Cash, end of year	$ 33,593,938	$ 20,579,704

The accompanying notes are an integral part of these financial statements.

British Columbia Securities Commission
For Year Ended March 31, 2014 (audited)

1. NATURE OF OPERATIONS

The British Columbia Securities Commission (BCSC) is a Crown corporation created by the Province of British Columbia on April 1, 1995. We are responsible for the administration of the *Securities Act*. As a Crown corporation, the BCSC is exempt from income taxes. We pay PST (7%) and GST (5%) on taxable purchases but recover the GST.

Effective April 2, 2013, the BCSC, the Alberta Securities Commission, Ontario Securities Commission, and the Autorité des marchés financiers (collectively, the Principal Administrators, or PAs), agreed with Investment Industry Regulatory Organization of Canada (IIROC), CDS Inc. (CDS) and CGI Information Systems and Management Consultants Inc. (CGI) to consolidate national electronic filing systems governance under the PAs and transition systems management from CDS to CGI during fiscal 2014. Under the arrangements, each of the four PAs has one vote on national electronic filing systems matters. This arrangement is a government partnership under Public Sector Accounting Standards (PSAS). Accordingly, these financial statements include 25% of the assets, liabilities, net assets, revenues and expenses of the Partnership, effective April 2, 2013. On recognition of the Partnership at April 2, 2013, BCSC recorded 25% of the Partnership's opening surplus as a special item on the Statement of Operations and Change in Accumulated Surplus.

2. SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these financial statements in accordance with PSAS using guidance developed by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants Canada. Significant accounting policies followed in the preparation of these financial statements are:

a) Interest in Partnership

We record the BCSC interest in the Partnership using proportionate consolidation, whereby we record our pro-rata share of each of the assets, liabilities, net assets, revenues and expenses of the Partnership.

b) Financial instruments

Our financial instruments include cash, investments, amounts receivable, accounts payable and accrued liabilities and accrued salaries. Under the *Securities Act*, we must invest any BCSC money that we receive, but do not immediately need, in investment pools that the British Columbia Investment Management Corporation (bcIMC), a BC government organization, administers. The Partnership's surplus cash is on deposit with a Schedule 1 chartered bank, earning interest at prime minus 1.85%.

We account for all of our financial instruments on a fair value basis, as follows:

- We record cash and investments at fair value (fair value measurement hierarchy level one – quoted market prices). We consider the fair value of our investments to be market value because they are highly liquid.
- We record all other financial instruments at cost, which approximates fair value, due to their short-term nature.

We recognize realized gains and losses in annual surplus/deficit, in the period that they arise. We record unrealized gains and losses separately in the statement of accumulated remeasurement gains / (losses). We reinvest any investment earnings in the portfolio and returns adjust the carrying value of the units we own.

c) Tangible capital assets

We record tangible capital assets at cost. We depreciate them using the straight-line method over their useful lives.

We estimate the useful lives of our tangible capital assets to be as follows:

- Information technology – five years
- Leasehold improvements – the remaining lease term to November 30, 2021
- Office furniture and equipment – ten years
- Partnership information technology – three years

d) Prepaid expenses

Prepaid expenses include calendar year registration processing fees and prepaid IT hardware and software maintenance. We charge prepaid expenses to expense over the periods of expected benefit.

e) Revenue recognition

We accrue prospectus and other statutory filing fees when filings are made and collectibility is assured. The amounts due and their collectibility are normally determined simultaneously, as almost all filings are paid for immediately.

We receive registration fees in advance, so we defer and recognize them in revenue over the calendar year to which they relate.

We recognize enforcement sanctions when we determine they are collectible.

f) Expenses

We report expenses on an accrual basis. We expense the cost of all goods consumed and services received during the year.

g) Measurement uncertainty

PSAS require management to make estimates and assumptions for certain amounts disclosed in the financial statements.

In our financial statements, management has estimated the:

- portion of amounts receivable that we will collect
- useful lives of tangible capital assets
- value of the employee leave liability

Estimates reflect the best information available when we prepare the financial statements. We review estimates of employee leave liability annually. We review all other estimates on a quarterly basis.

Actual results may differ from these estimates. Any adjustments to these estimates will be recorded in the period that additional information becomes available.

3. FINANCIAL INSTRUMENTS

Cash consists of demand deposits held at Schedule 1 Canadian chartered banks.

Our investments are in units of bcIMC investment pools. Our investment policy allows us to buy units of the following bcIMC pooled funds:

- *Canadian Money Market Fund (ST1)* — Canadian money market investments with original maturities of less than 45 days
- *Canadian Money Market Fund (ST2)* — Canadian money market investments with original maturities of less than 15 months
- *Short Term Bond Fund* — Canadian federal and provincial government bonds and Canadian dollar fixed income securities that are insured or guaranteed by sovereign governments, and supranational debt securities, all maturing within five years
- *Canadian Universe Bond Fund* — Canadian federal and provincial government bonds, Canadian dollar fixed income securities insured or guaranteed by sovereign governments, and investment-grade corporate debt securities, all maturing within 30 years

Our use of financial instruments to invest exposes us to the following risks:

- *Credit risk* — the possibility that an underlying issuer will default, by failing to repay principal and interest in a timely manner
- *Liquidity risk* — the possibility that we will not be able to sell our investments when we want
- *Market risk* — the possibility that our investments may decline over time because of economic changes or other events that affect large portions of the market
- *Interest rate risk* — the possibility that the value of our investments and the related investment returns will fluctuate over time because of interest rate changes

In management's opinion, our investments do not expose the BCSC to significant credit or material market risk because we invest in liquid, high quality money market instruments, government securities and investment-grade corporate debt securities. Liquidity risk is low because our investments are in pooled fund units redeemable within two weeks, without penalty. The underlying assets in the pool are also highly liquid.

Our investments expose the BCSC to interest rate risk. The fair value of our investments in longer-term fixed rate securities fluctuates significantly with changes in interest rates. Based on the March 31, 2014 composition of our investment portfolio, an immediate 1% increase in interest rates across the entire yield curve, with all other variables held constant, would result in a decrease in market value of approximately $1.2 million. In addition, future investment income earned on variable rate cash deposits and maturing fixed rate securities would increase after an interest rate increase. We expect interest rates to rise slightly, if at all, over the coming year. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC. The current investment duration of the ST2 Fund is 2.7 years and of the Canadian Universe Bond Fund is 6.9 years.

In management's opinion, amounts receivable, accounts payable and accrued liabilities and accrued salaries do not expose us to significant financial risk because of their short-term nature.

4. CASH

Cash is demand deposits, as follows:

	March 31, 2014	March 31, 2013
Operating cash	$ 5,567,474	$ 20,579,704
Partnership cash	28,026,464	-
	$ 33,593,938	$ 20,579,704

5. INVESTMENTS

a) bcIMC investments

bcIMC investments are carried at fair value, and consist of:

	March 31, 2014		March 31, 2013	
bcIMC pooled funds	Market Value	Cost	Market Value	Cost
Short Term 2 Fund	$ 7,037,423	$ 7,038,126	$ -	$ -
Canadian Universe Bond Fund	16,840,590	17,460,288	16,633,044	16,973,455
	$ 23,878,013	$ 24,498,414	$ 16,633,044	$ 16,973,455

bcIMC investment distributions, net of management fees, are reinvested in the portfolio and adjust the carrying value of the units we own.

b) National filing systems partnership

Summarized statements of financial position, operations and cash flows as at March 31, 2014, and for the period then ended, are as follows:

	Partnership	25% Share
FINANCIAL POSITION		
Financial assets	$ 116,339,888	$ 29,050,770
Liabilities	1,269,142	317,286
Net Financial assets	115,070,746	28,767,687
Non-financial assets	708,333	177,083
Accumulated surplus	$ 115,779,079	$ 28,944,770
OPERATIONS		
Revenue	$ 51,500,538	$ 12,875,135
Operating expenses	26,201,607	6,584,604
Systems transition expenses	4,330,614	1,082,654
Surplus	$ 20,968,317	$ 5,242,079
CASH FLOWS		
Cash provided by (used in):		
Operating	$ (20,968,317)	$ (5,242,079)
Capital	750,000	187,500
Investing	135,997,396	33,999,349
Increase in cash	$ 115,779,079	$ 28,944,770

6. AMOUNTS RECEIVABLE

Amounts receivable consists of:

	March 31, 2014	March 31, 2013
National filing systems fees	$ 745,942	$ -
Enforcement sanctions (note 11)	216,143	401,620
Late insider report filing fees	32,400	44,076
Due from CSTO (a)	94,325	88,572
National project recoveries (b)	102,605	26,400
GST rebates	87,152	347,466
Employee advances and other	77,013	31,270
	$ 1,355,580	$ 939,404

(a) We seconded employees to, and provide technology and accounting support to, the Canadian Securities Regulatory Regime Transition Office (CSTO) on a cost recovery basis. The balance reflects cost recoveries due from the CSTO.

(b) We incur IT costs on behalf of the Partnership's National Cease Trade Order Database. The balance reflects cost recoveries due from the other partners.

7. EMPLOYEE LEAVE LIABILITY

Employee leave liability is what we owe to our employees for their accumulated vacation time and other leave entitlements not yet taken.

8. TANGIBLE CAPITAL ASSETS

Tangible capital assets consists of:

					March 31, 2014
	Information Technology*	Leasehold Improvements	Office Furniture and Equipment	Partnership Information Technology	Total
COST					
Opening balance	$ 7,754,359	$ 4,821,394	$ 2,436,635	$ -	$ 15,012,388
Additions	4,316,861	620,116	303,748	187,500	5,428,225
Disposals	-	-	-	-	-
Write-downs	-	-	-	-	-
Closing balance	$ 12,071,220	$ 5,441,510	$ 2,740,383	$ 187,500	$ 20,440,613
ACCUMULATED AMORTIZATION					
Opening balance	$ 2,535,821	$ 3,818,485	$ 2,191,408	$ -	$ 8,545,714
Amortization	1,284,231	116,041	46,250	10,417	1,456,939
Disposals	-	-	-	-	-
Write-downs	-	-	-	-	-
Closing balance	$ 3,820,052	$ 3,934,526	$ 2,237,658	$ 10,417	$ 10,002,653
Net book value	$ 8,251,168	$ 1,506,984	$ 502,725	$ 177,083	$ 10,437,960

* *$2.6 million of assets are not being amortized because they are under development*

					March 31, 2013
	Information Technology	Leasehold Improvements	Office Furniture and Equipment	Partnership Information Technology	Total
COST					
Opening balance	$ 4,019,787	$ 4,608,691	$ 2,400,059	$ -	$ 11,028,537
Additions	3,908,968	212,703	46,944	-	4,168,615
Disposals	174,396	-	10,368	-	184,764
Write-downs	-	-	-	-	-
Closing balance	$ 7,754,359	$ 4,821,394	$ 2,436,635	$ -	$ 15,012,388
ACCUMULATED AMORTIZATION					
Opening balance	$ 1,912,891	$ 3,719,806	$ 2,159,459	$ -	$ 7,792,156
Amortization	797,326	98,679	42,317	-	938,322
Disposals	174,396	-	10,368	-	184,764
Write-downs	-	-	-	-	-
Closing balance	$ 2,535,821	$ 3,818,485	$ 2,191,408	$ -	$ 8,545,714
Net book value	$ 5,218,538	$ 1,002,909	$ 245,227	$ -	$ 6,466,674

9. PREPAID EXPENSES

Prepaid expenses consists of:

	March 31, 2014	March 31, 2013
IIROC registration processing fees	$ 295,294	$ 288,512
National filing systems prepaid contracts	312,567	-
Hardware and software maintenance contracts	226,836	253,133
	$ 834,697	$ 541,645

10. ACCUMULATED SURPLUS

	General	Education (a)	National systems (b)	Total
OPENING BALANCE, MARCH 31, 2014	$ 31,190,866	$ 547,924	$ -	$ 31,738,790
Additions and appropriations	(3,020,431)	677,077	28,944,770	26,601,416
Investment income allocation	-	-	-	-
Education disbursements paid from reserve	1,225,001	(1,225,001)	-	-
CLOSING BALANCE	$ 29,395,436	$ -	$ 28,944,770	$ 58,340,206

	General	Education (a)	National systems (b)	Total
OPENING BALANCE, MARCH 31, 2013	$ 31,099,409	$ 1,746,430	$ -	$ 32,845,839
Additions and appropriations	(2,105,228)	998,179	-	(1,107,049)
Investment income allocation	(15,251)	15,251	-	
Education disbursements paid from reserve	2,211,936	(2,211,936)	-	-
CLOSING BALANCE	$ 31,190,866	$ 547,924	$ -	$ 31,738,790

a) Education reserve (restricted)

We order administrative penalties and disgorgements under the *Securities Act*. We also negotiate settlement amounts. We designate revenue from penalties, settlements, and unclaimed disgorgements to our Education reserve, which we spend only to educate securities market participants and the public about investing, financial matters or the operation or regulation of securities markets.

b) National systems (restricted)

Canadian Securities Administrators (CSA) jurisdictions share an undivided interest in Partnership surpluses. The Partnership agreement specifies that the Partnership will use these systems' surpluses only for the benefit of national filing systems users.

11. ENFORCEMENT SANCTIONS

Enforcement sanctions include administrative penalties, settlements and unclaimed disgorgements. Revenues depend on the timing of enforcement actions completed during the year and on our ability to collect assessed amounts.

We assessed enforcement sanctions of $2.5 million (fiscal 2013 - $22.2 million) during the year, of which we did not recognize $1.9 million (fiscal 2013 - $21.5 million) as revenue because we do not expect to receive payment.

Collecting enforcement sanctions is difficult because respondents often have limited assets, poor credit or have left British Columbia. We pursue outstanding amounts as appropriate, to maximize sanction receipts, net of collection costs.

12. INVESTMENT INCOME

Financial and real returns related to financial assets are as follows:

	For the Year Ended March 31, 2014					
	Average Balance	Investment Income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized return
Cash	$ 45,831,454	$ 412,143	$ -	$ 412,143	$ -	0.9%
Pooled Canadian						
Money Market Fund (ST2)	3,010,254	37,303	824	38,127	(703)	0.0%
Short Term Bond Fund (STB)	-	-	-	-	-	0.0%
Canadian Universe Bond Fund	16,495,436	486,832	-	486,832	(278,463)	1.3%
	$ 65,337,143	$ 936,278	$ 824	$ 937,102	$ (279,166)	1.0%

	For the Year Ended March 31, 2013					
	Average Balance	Investment Income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Annualized return
Cash	$ 6,854,013	$ 51,620	$ -	$ 51,620	$ -	0.8%
Pooled Canadian						
Money Market Fund (ST2)	-	-	-	-	-	0.0%
Short Term Bond Fund (STB)	11,078,000	164,359	15,585	179,944	-	1.6%
Canadian Universe Bond Fund	20,001,995	800,508	1,187,730	1,988,238	107,202	10.5%
	$ 37,934,008	$ 1,016,487	$ 1,203,315	$ 2,219,802	$ 107,202	6.1%

British Columbia Securities Commission
For Year Ended March 31, 2014 (audited)

13. EXPENSES BY OBJECT

	Budget	For the Year Ended March 31, 2014	For the Year Ended March 31, 2013
LOCAL OPERATIONS			
Salaries and benefits	$ 25,800,000	$ 28,817,138	$ 27,022,765
Professional services	4,697,000	2,378,331	2,861,416
Occupancy	3,004,000	3,066,164	2,659,208
Amortization	1,917,000	1,446,522	938,322
Information management	1,248,000	1,163,288	1,179,341
Education disbursements	2,300,000	2,167,923	2,211,936
External communication	307,000	386,210	456,382
Administration	573,000	562,311	520,413
Staff training	706,000	469,113	339,995
Travel	361,000	237,322	211,536
Telecommunications	119,000	171,500	124,705
Total local operations	$ 41,032,000	$ 40,865,822	$ 38,526,019
NATIONAL FILING SYSTEMS OPERATIONS			
Salaries and benefits	$ -	$ 601,558	$ -
Occupancy	-	45,041	-
Professional services	-	1,511,786	-
Amortization	-	10,417	-
Information management	-	5,464,253	-
Administration	-	-	-
Total National filing systems operations	$ 4,000,000	$ 7,633,055	$ -
	$ 45,032,000	$ 48,498,877	$ 38,526,019

14. RELATED PARTY TRANSACTIONS

We are related through common ownership to all BC provincial government ministries, agencies and Crown corporations. We conducted all transactions with these entities as though we were unrelated parties.

15. POST-RETIREMENT EMPLOYEE BENEFITS

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan. The plan is contributory, and its basic benefits are defined. The plan has about 56,000 active members and approximately 41,000 retired members. A board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of assets and administration of benefits.

An actuarial valuation of the plan performed every three years assesses the plan's financial position. The latest valuation, as at March 31, 2011, indicated a $275 million defi 't for basic pension benefits. In order to fund the liability, both employee and employer contribution rates increased, effective April 1, 2012. In addition to basic benefits, the plan also provides supplementary benefits, including inflation indexing. These supplementary benefits are paid only to the extent that they have been funded, which is currently done on a "pay-as-you-go" basis. The next scheduled valuation will be as at March 31, 2014 and will be completed in winter 2014/2015.

The plan trustees monitor the impact of the financial environment on plan health. Plan surpluses and deficits are not attributable to individual employers, but affect future contribution levels. We charged $2.4 million to expense for employer contributions during the period (fiscal 2013 - $2.0 million).

16. COMMITMENTS AND CONTINGENCIES

a) Office and equipment leases

We have lease agreements for office space and equipment. Our total lease commitments as at March 31, 2014 are $24.6 million (fiscal 2013 - $27.7 million).

2015	2016	2017	2018	2019	2020-2022	Total
$ 3,017,530	$ 3,064,830	$ 3,143,191	$ 3,180,947	$ 3,233,390	$ 8,924,578	$ 24,564,466

b) National electronic filing systems

The Canadian Securities Administrators (CSA) is an umbrella organization of Canada's ten provincial and three territorial securities regulators, whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets. The Partnership oversees several national electronic filing systems, on behalf of the CSA.

The PAs govern the systems, under agreements with the other CSA members. The CSA CIO manages vendors and systems architecture. The OSC manages funds and accounting. The ASC manages intellectual property, filer agreements, and data dissemination agreements. The Partnership contracted CGI to provide IT services, to January 13, 2019.

We collect about 90% of our fee revenue through the filing systems. CGI maintains a comprehensive business continuity plan for each system.

The Partnership charges user fees to recover systems development and operating costs, and the CSA jurisdictions share an undivided interest in the systems and related surpluses. As at March 31, 2014, the Partnership's accumulated surpluses totalled $115.3 million. The Partnership has agreed to use these surpluses only for the benefit of national filing systems users.

c) Legal actions

We are involved in a legal action arising from the operation of our business. The outcome and ultimate disposition of this action are not yet determinable. We do not expect the outcome of this proceeding to have a material impact on our financial position.

17. Budgeted figures

Budgeted figures are for comparison purposes and flow from the BCSC fiscal 2014 Service Plan.

Enforcement Report

Enforcement Report

Market misconduct, including investment fraud, poses a significant risk to the integrity of BC's capital markets. A credible enforcement program is a powerful tool to ensure compliance and deter inappropriate and illegal market conduct, and sends a strong message to the market and public.

Effective enforcement requires knowledgeable professionals who can detect and respond to misconduct that affects local and national capital markets.

Protecting investors and market integrity

Our Enforcement division utilizes all of the regulatory tools at its disposal to protect investors from falling victim to fraud or other abusive activity. We aim to detect misconduct early, disrupt and stop the activity, and then pursue it vigorously to deter future harm to investors and the capital markets.

BCSC staff investigate complaints of market misconduct, and the executive director can take early, decisive action by issuing temporary enforcement orders to intervene and stop ongoing misconduct.

After we detect misconduct, there are two different paths for investigations to take.

The first option is administrative. The executive director can settle with a respondent, or bring a case before a BCSC panel. BCSC panels have broad powers under the *Securities Act* to take action against misconduct, including ordering market bans, administrative penalties, and the disgorgement of ill-gotten gains. BCSC decisions and settlement agreements act as deterrents to those who seek to harm investors and our capital markets.

The second option is criminal. The BCSC's criminal investigation team investigates and refers cases to Crown Counsel for prosecution. The courts can then impose penalties, including jail terms and fines, which can act as deterrents for those for whom administrative penalties are not a deterrent.

Collaborative enforcement

In April 2013, a UK court sentenced Ian David Macdonald to eight years in prison and David John Downes to four-and-a-half years, in connection with a promotion of voluntary carbon credits and shares. In November 2010, the BCSC blocked an attempt to wire US$1 million to a Swiss company and froze the proceeds in a BC bank account that Macdonald controlled. In December 2010, Macdonald and Downes were arrested on suspicion of fraud when they flew into Heathrow from Vancouver. This case represents international cooperation between the BCSC and police in the UK.

We work with securities regulators in other jurisdictions to reciprocate market bans, share information, and conduct investigations. During the year, we received

- 17 formal requests for assistance from US federal and state authorities, including the US Securities and Exchange Commission (SEC) and the US Commodity Futures Trading Commission
- 5 from the OSC
- 5 from the ASC
- 3 from the Hong Kong Securities and Futures Commission
- 5 from other agencies

We made

- 15 formal requests for assistance to US federal and state authorities, including the SEC
- 5 to the Swiss Financial Market Supervisory Authority FINMA
- 4 to the UK Financial Services Authority
- 3 to the Panama Superintendencia del Mercado de Valores
- 11 to other agencies

With respect to allegations of criminal misconduct, our criminal investigation team conducts the investigations required and prepares reports for Crown Counsel. In British Columbia, the decision about whether or not to lay charges rests solely with Crown Counsel. We also work with other enforcement agencies and financial institutions to raise awareness of investment fraud. Our work aims to encourage early reporting of investment fraud and deter misconduct that can harm investors and our capital markets.

Cross-divisional initiatives

The Enforcement division works closely with staff in the Corporate Finance and Capital Markets Regulation divisions. The Compliance branch in the Corporate Finance division referred five cases to the Enforcement division this year. Staff in the Capital Markets Regulation division referred two cases to Enforcement. All seven cases referred to Enforcement in fiscal 2014 are still being investigated.

Staff in both Corporate Finance and Capital Markets Regulation can also issue their own production orders and, in the case of Corporate Finance, issue halt-trade orders and cease-trade orders. Capital Markets Regulation also issues compliance-review orders.

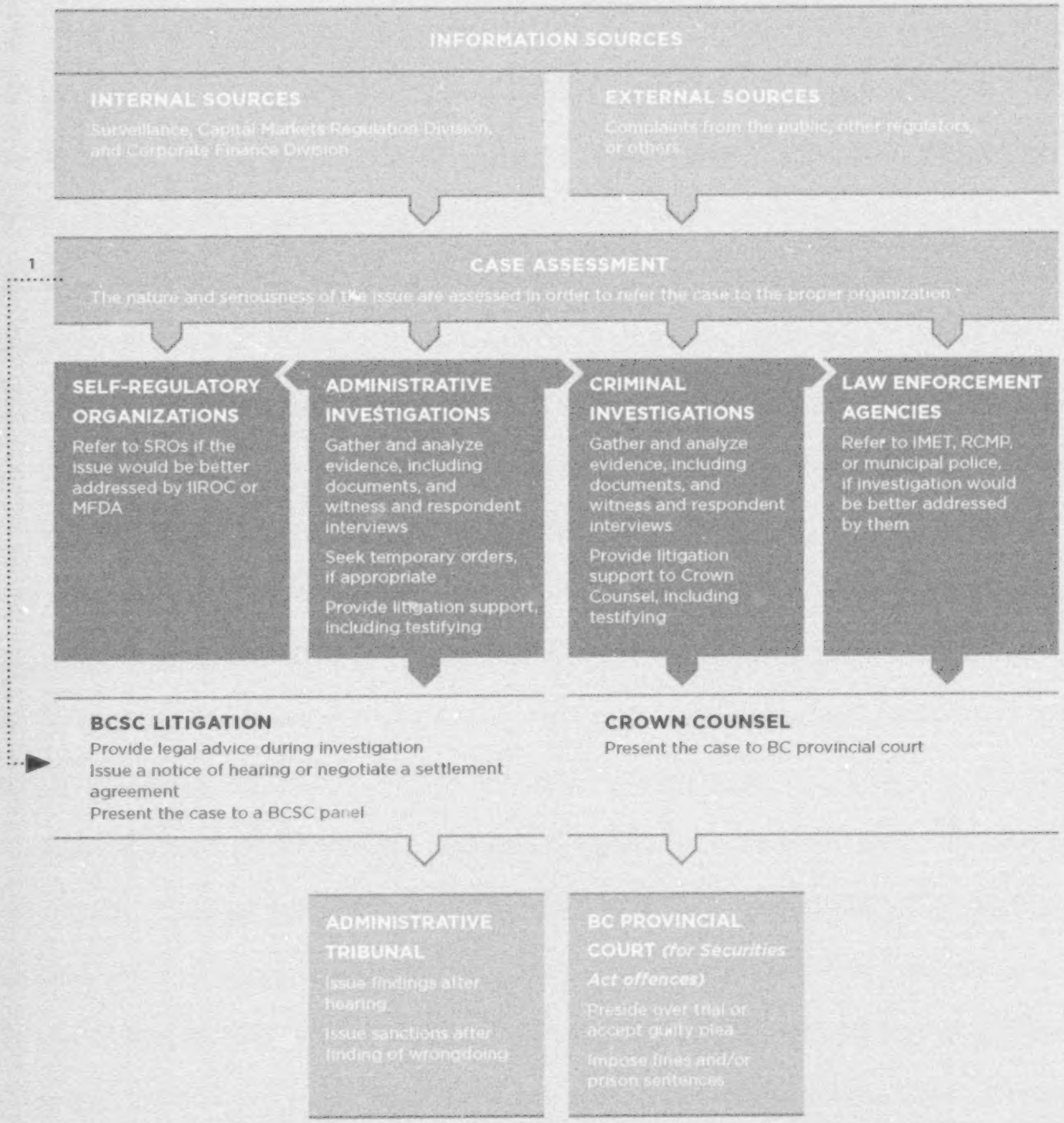
Fiscal year	2012	2013	2014
Production orders — Compliance	222	89	46
Halt-trade orders — Compliance	3	3	2
Cease trade orders — Compliance	34	38	29
Compliance-Review orders[1]	N/A	66	106

1. This is a new measure in 2014. These compliance-review powers came into effect on November 24, 2011 and were first used in May 2012.

In 2014, we spent more time on investigations and less time on compliance work than previous years. As a result, although the number of compliance production orders we issued decreased by 48%, the change was more than offset by the increase in the number of demands for production and summons to attend we issued in connection with a formal investigation. This general trend was the case in both our monitoring of the US OTC markets and the private placement market.

Awareness and education can help disrupt, stop, and prevent investment fraud. The Enforcement division continues to play an active role in the BCSC's InvestRight program. Enforcement staff participate in delivering investment fraud courses to police and take part in our province-wide *Be Fraud Aware* education seminars. They also work with Communications & Education staff to issue public warnings through InvestRight *Investor Watches* and *Investor Alerts* about possible unsuitable investments or fraudulent investment schemes. BCSC staff also communicate through the news media, social media websites, and face-to-face seminars to increase fraud awareness and reporting.

How the BCSC handles enforcement cases


INFORMATION SOURCES
INTERNAL SOURCES
Surveillance, Capital Markets Regulation Division, and Corporate Finance Division
EXTERNAL SOURCES
Complaints from the public, other regulators, or others
1
CASE ASSESSMENT
The nature and seriousness of the issue are assessed in order to refer the case to the proper organization.*
SELF-REGULATORY ORGANIZATIONS
Refer to SROs if the issue would be better addressed by IIROC or MFDA
ADMINISTRATIVE INVESTIGATIONS
Gather and analyze evidence, including documents, and witness and respondent interviews
Seek temporary orders, if appropriate
Provide litigation support, including testifying
CRIMINAL INVESTIGATIONS
Gather and analyze evidence, including documents, and witness and respondent interviews
Provide litigation support to Crown Counsel, including testifying
LAW ENFORCEMENT AGENCIES
Refer to IMET, RCMP, or municipal police, if investigation would be better addressed by them
BCSC LITIGATION
Provide legal advice during investigation
Issue a notice of hearing or negotiate a settlement agreement
Present the case to a BCSC panel
CROWN COUNSEL
Present the case to BC provincial court
ADMINISTRATIVE TRIBUNAL
Issue findings after hearing
Issue sanctions after finding of wrongdoing
BC PROVINCIAL COURT (for Securities Act offences)
Preside over trial or accept guilty plea
Impose fines and/or prison sentences

1. Direct referral to BCSC Litigation when no further investigation is required.

Enforcement activity April 1, 2013 – March 31, 2014

We handled 129 new cases last year. Many of these represented multiple violations including:

Enforcement Activity for Last Three Years[1]

Fiscal year	2012	2013	2014
New enforcement cases handled	163	114	129
Production orders – Enforcement	305	449	647
Freeze orders – Enforcement	14	6	4
Assets frozen (at year-end)[2]	$ 15.48 million	$ 21.16 million	$ 22.11 million[3]
Assets returned to investors, provided to Civil Forfeiture Office, to receiver, or to bankruptcy trustee	$ 1.35 million	$ 2.26 million	$ 156,718[4,5]

1. The number of new cases, the amount of assets frozen, and the amount of assets returned to investors or provided to other agencies for investors depend on a variety of external factors, and thus vary significantly from year-to-year.

2. This is an estimated value for assets frozen at year-end. Not all assets were in the form of cash, so the actual value of frozen assets may differ because of market conditions and other valuation factors.

3. The money frozen came from four cases in fiscal 2014.

4. The amounts returned for fiscal 2014 came from three cases.

5. Cases with significant assets frozen were not yet concluded at year-end.

The BCSC began fiscal 2013 with 24 notices of hearing outstanding. At year-end, there were 37 notices of hearing outstanding.

Here is the hearing-related activity for each of the last three years:

Fiscal year	2012	2013	2014
New notices of hearing	13	21	22
Temporary orders	2	6	3
Liability decisions	5	5	7
Hearing sanction decisions	14	11	7
Settlement agreements	9	10	11

Enforcement highlights

We post all notices of hearing, decisions, and settlements in the Enforcement section of our website, where they are searchable by name and keyword. The *CSA 2013 Enforcement Report* discusses one BCSC hearing decision, one BCSC settlement, and two criminal cases during calendar year 2013. You can link to the report here or obtain it on the BCSC website.

Investor Alerts and temporary orders

We use Investor Alerts and temporary orders to try to disrupt, stop, and prevent illegal investment activities.

Investor Alert—Mission Mining Company

On November 28, 2013, the BCSC issued an *Investor Alert* warning the public that Mission Mining had not filed a report with the BCSC under Canada's National Mining Rule. The report posted on Mission Mining's website, and the company's related disclosure with respect to the purported mineral resource and value, did not comply with the National Mining Rule.

The BCSC became aware that Mission Mining Company, a company based in Nevada with no apparent connection to BC or any jurisdiction in Canada, issued a news release on November 21, 2013 that claimed it had posted a report on its website under Canada's National Mining Rule. The report allegedly confirmed a very large mineral resource containing gold and silver, which the company used to disclose a very large estimate of purported resource value.

This *Investor Alert* represents a novel approach to dealing with a company that had very limited connections to BC and that was falsely claiming compliance with the National Mining Rule.

Investor Alert—Binary Options Trading Entities

The BCSC issued an *Investor Alert* on January 10, 2014, warning investors about internet-based binary options trading platforms. The *Alert* indicated that the BCSC had recently become aware of RBOptions, an unregistered online trading platform claiming to operate out of Toronto, Ontario. The *Alert* also warned about 24option.com, GOoptions.com, and TradeRush.com, which were placed on the BCSC Investment Caution List in August 2013.

In the *Investor Alert*, the BCSC also expressed concern that a large portion of binary options are illegally traded through unregistered and unregulated online trading platforms, many of which are located offshore.

Investor Alert—Morgan Dragon Development

On February 4, 2014, the BCSC issued an *Investor Alert* warning investors about an apparent "recovery room" scheme targeting investors who had purchased securities from Morgan Dragon Development Corp, which was subject to an OSC sanctions order.

The BCSC had learned that a Thai company called G.W. Trust and Transfer (GWTT) was directly soliciting Morgan Dragon investors by email and phone, claiming that it wanted to purchase Morgan Dragon units/shares from investors at a high price. GWTT told investors that, in order to receive money for their shares, they had to send money upfront to pay taxes in Thailand. GWTT was not registered in any capacity under the BC *Securities Act*.

Temporary order—Bank Gutenberg

In August 2013, the BCSC's executive director issued a notice of hearing and a temporary order against Bank Gutenberg, a Swiss private bank and investment dealer offering offshore brokerage services. The temporary order bans Bank Gutenberg from trading in any securities and from engaging in investor relations activities. The notice of hearing alleges that Bank Gutenberg carried out trades and provided securities advice on behalf of at least two BC residents without being registered to do so. It also alleges that Bank Gutenberg offered its services through its website without prominently posting a disclaimer that expressly identifies the foreign jurisdictions in which any offering or solicitation is qualified to be made, and failed to take reasonable precautions not to sell to BC residents. The allegations in the notice of hearing have not been proven.

Criminal cases

The BCSC's goal is to investigate and recommend *Criminal Code* and *Securities Act* charges against individuals for whom administrative sanctions alone are not considered a deterrent. Since the team was formed in 2007, 24 individuals have been charged[1] after our Criminal Investigation team referred cases to Crown Counsel for prosecution.

1. Four of these individuals have been charged with subsequent offences under the Securities Act and Criminal Code.

In the past year, the team referred two cases to Crown Counsel, both of which are awaiting decisions on charge approval.

Key to the success of the team is the good working relationship with Crown Counsel and law enforcement agencies.

Ralph Bartholomew Kelly

In February 2014, Kelly was convicted of theft and fraud under the *Criminal Code* after a jury trial. He was sentenced to 25 months in jail and ordered to pay back over $157,000 for defrauding two Victoria men of more than $270,000. Kelly convinced the two men that if they raised $250,000, he would loan them $1.5 million. The two men pleaded guilty to offences under the *Securities Act* for their role in the scheme. This case demonstrates cooperation between the BCSC and the Saanich Police.

Kelly was well known to the BCSC. In October 2008, a BCSC panel found that he committed fraud in a different scheme between 2001 and 2003. In that case, the BCSC permanently banned him from BC's capital markets and ordered him to pay more than $440,000, which remains outstanding.

Hal (Mick) Allan McLeod (aka Michael Smith) and Claude (C.C.) West

In November 2013, McLeod pleaded guilty to breach of a court order and acting as an adviser. He was sentenced to 90 days in jail, to be served intermittently. In February 2014, after a trial, West was convicted of fraud and sentenced to 50 days in jail, to be served intermittently. West was 84 years old at the time of sentencing. Both McLeod and West were placed on probation for two years with a condition neither of them solicit money from anyone.

These sentences were imposed even though no victims of McLeod and West were found. An investigation team at the BCSC discovered a promotion offering an impossibly high investment return for an investment in Provina Capital, an online gambling website. After an undercover investigation, BCSC staff worked closely with the RCMP and Vancouver Police Department to bring McLeod and West before the courts.

The BCSC had already sanctioned McLeod for his role in a Ponzi scheme. In October 2009, the BCSC fined McLeod $8 million, ordered him to repay US$16 million and permanently banned him from BC capital markets for his role in the Manna scheme. The panel in that case found that he and three others perpetrated a "deliberate and well-organized" fraud in a Ponzi scheme that resulted in the loss of over US$10-million by more than 800 investors in BC and elsewhere.

Settlements

In a settlement agreement, the person subject to the allegations admits to misconduct and consents to an enforcement order, a financial payment, or another appropriate remedy.

League Investment Services Inc., Adam Gant, and Emanuel Arruda

In October 2013, League Investment Services Inc. (LISI), a registered exempt market dealer, Gant, and Arruda entered into a settlement agreement. They admitted that LISI, when it sold securities of the IGW Real Estate Invesment Trust (IGW REIT), had not met its disclosure obligations to disclose that the IGW REIT was a related or connected issuer.

For their misconduct, Gant and Arruda agreed to pay to the BCSC $150,000 and $100,000, respectively, and agreed to pass securities courses for dealing representatives. In addition, the BCSC ordered LISI to make satisfactory disclosure.

Before the settlement in September 2013, LISI agreed to rescind certain sales and agreed to conditions on its registration to improve its compliance practices. After the settlement in November 2013, LISI and 100 entities in the League Group obtained protection under the *Companies' Creditors Arrangement Act*. As a result, the BCSC suspended LISI's registration immediately.

Wilhelmus (William) Kocken, Matthew Ball, and Bralorne Gold Mines Ltd.

In December, Kocken, Ball, and Bralorne admitted that Bralorne published a news release that included information from an economic analysis that did not comply with the Canadian National Mining Rule. Although the company retracted the news release upon IIROC's instruction, they subsequently included the offending information in a technical report on SEDAR and on their website.

For their misconduct, Kocken and Ball each agreed to pay $20,000 to the BCSC and to complete a course on the requirements of the National Mining Rule within one year from the date of the settlement.

Quantum Financial Services

In April 2013, Quantum admitted in a settlement agreement that it failed to address repeated deficiencies in the area of Know Your Client procedures, Policy and Procedures manual, and Compliance Officer performance and oversight.

In 2005, BCSC staff identified several deficiencies during a compliance examination. Subsequent examinations in 2008 and 2010 found similar deficiencies. There was no evidence that the deficiencies negatively impacted Quantum's clients and a 2011 examination found the company had corrected the deficiencies.

Quantum agreed, in the settlement agreement, to pay $50,000 and to engage a consultant (approved by BCSC staff in advance) to review Quantum's ongoing response to the deficiencies on a quarterly basis for a period of one year.

Findings, hearings, and decisions

Following a hearing, if a BCSC panel finds that allegations of misconduct are proven, the commissioners can make enforcement orders, impose financial penalties, or order the disgorgement of ill-gotten funds.

Armadillo Energy Inc., Richard Gozdek, and Darwin James Hajime Okano

In September 2013, a BCSC panel found that Armadillo Energy Inc., a Nevada corporation that claimed it owned an oil lease in Oklahoma, illegally raised $868,769 from 26 British Columbians. For its misconduct, the panel permanently banned Armadillo Energy from trading securities in BC. The panel also ordered Armadillo to pay an administrative penalty of $800,000.

Earlier in June 2013, in two separate settlement agreements, Godzek and Okono each admitted that they illegally sold securities in Armadillo. Gozdek directly solicited people to invest in the partnership agreements and raised over $550,000 from BC residents, while receiving a commission of over $40,000. Okono also directly solicited people to invest and raised over $220,000 from BC residents, while receiving a commission of over $17,500.

Under the agreements, Gozdek agreed to pay the BCSC more than $65,000 while Okono agreed to pay more than $27,500. Also under the agreements, Gozdek is banned, with limited exceptions, from BC's capital market for five years while Okono is similarly banned for three years.

Jefferson Franklin Mesidor

In January 2014, a BCSC panel permanently banned Mesidor from the province's capital markets. The panel fined Mesidor $75,000 and ordered him to repay the $16,000 he obtained from investors as a result of his misconduct.

A BCSC panel had found, in October 2013, that Mesidor committed fraud when he falsely represented to two investors that he would pool their money with his own to conduct foreign exchange (Forex) trading for profit. The panel also found that Mesidor prepared and delivered false and misleading financial statements to the investors.

Mesidor failed to contribute any of his own money to the pool. He used half of the investors' money for purposes other than trading and lost the other half in Forex trading.

Frequently Used Terms

CSA *Canadian Securities Administrators:* the council of securities regulators of Canada's 13 provinces and territories

IIROC *Investment Industry Regulatory Organization of Canada:* the national self-regulatory organization that oversees all investment dealers and trading activity on debt and equity marketplaces in Canada

MFDA *Mutual Fund Dealers Association of Canada:* the national self-regulatory organization that regulates the distribution side of the Canadian mutual fund industry

MIE Exemption: BC Instrument 32-517 *Exemption from Dealer Registration Requirement for Trades in Securities of Mortgage Investment Entities*

National Mining Rule: National Instrument 43-101 *Standards of Disclosure for Mineral Projects*

NI *National Instrument:* a document that sets out uniform rules to govern the national securities market, and deals with various regulatory matters

Northwest Exemption: BC Instrument 32-513 *Registration Exemption for Trades in Connection with Certain Prospectus-Exempt Distributions*

NRD *National Registration Database:* the CSA's national web-based system that permits individuals who are dealers or advisors to file registration forms electronically

OTC *Over-the-counter:* This refers to markets, or to derivatives or other securities not traded on a traditional exchange

PR *Principal Regulator:* This refers to the Canadian regulator that reviews filings for a particular company or registrant, primarily based on the company or registrant's head office or other connection

SEDAR *System for Electronic Document Analysis and Retrieval:* the CSA's national electronic filing system for disclosure by public companies and mutual funds

SEDI *System for Electronic Disclosure by Insiders:* the CSA's national web-based system that facilitates the filing and public dissemination of "insider reports"

SRO *Self-Regulatory Organization:* an organization recognized by provincial securities regulators as having powers to establish and enforce industry regulations

TSX *Toronto Stock Exchange:* Canada's national senior equity exchange

TSX-V *TSX Venture Exchange:* one of Canada's two national junior equity exchanges

Resources For Investors

If you have questions regarding your financial adviser, investment firm, or an investment type, or if you would like to make a complaint, please call BCSC Inquiries at 604.899.6854. Outside the greater Vancouver area: Phone: 1.800.373.6393 Email: *inquiries@bcsc.bc.ca*

The BCSC's InvestRight website *(www.investright.org)* provides investors with the tools to research and assess potential investments and protect themselves from unsuitable or fraudulent investments. The information is not a substitute for financial or other professional advice. Always consult a professional adviser if you need financial advice.

The BCSC corporate website *(www.bcsc.bc.ca)* presents an overview of the Commission, promotes general understanding of the financial system, and provides industry professionals with the technical and legal information they need to operate within the *Securities Act*. While some investors may find useful content here, others will find the investment information on *InvestRight.org* more accessible.

For information about public companies and mutual funds, visit the SEDAR website: *www.sedar.com.*

For information about insider trading activity and viewing insider reports online, visit the SEDI website: *www.sedi.ca.*

You can download this annual report from the publications section of the website. The online version of this report contains hyperlinks to BCSC databases, a glossary of terms, and further information pertaining to certain sections of the report.

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